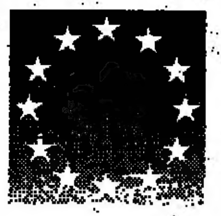

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FINANCIAL TIMES

Europe's Business Newspaper WEDNESDAY NOVEMBER 18 1992 D8523A

Former minister faces probe after Iraq arms trial

Britain's Crown Prosecution Service ordered a police inquiry into evidence given by former trade minister Alan Clark at the trial of three businessmen accused of breaking an arms embargo on Iraq. In the House of Commons, UK prime minister John Major dismissed charges that he and his cabinet colleagues had repeatedly misled parliament over British arms sales to Iraq. Page 9

Brussels veto upheld: The European Court of Justice reaffirmed support for the European Commission's powers to intervene directly to prevent monopolies from acting against the wider Community interest. Page 20

Anti-Mafia raid: Italian police arrested 77 people in the biggest anti-Mafia sweep for nearly a decade. Police issued more than 200 arrest warrants for people suspected of complicity in organised crime.

EC wins steel battle: EC producers of seamless steel tubes won an 18-month campaign against unfair trading after the European Commission found four east European countries guilty of dumping tube. Page 7

Clinton to meet Bush: US president-elect Bill Clinton will meet President George Bush at the White House today and make a symbolically important visit to a black inner-city Washington neighbourhood. Page 20

Fiat, Italy's largest private industrial conglomerate, announced a management shake-up, which aims to prepare the group for lean times and costly investment in motor industry. Page 23

London strike threat: Britain's largest rail union, the RMT, called an all-out strike on the London Underground rail network from next Tuesday in protest at job losses and a new pay and conditions package. Page 10

Tokyo revival plan: Japan's finance ministry announced rule changes for initial public offering procedures for stocks in an attempt to revive faltering investor interest in the country's stock market. Page 24

Albania backs down: The Albanian government, facing domestic problems this winter because of severe shortages of food and fuel, is diluting its support for ethnic Albanians in the neighbouring Serbian province of Kosovo. Page 2

British Airways, the world's most profitable airline, suffered a 22.7 per cent fall in second-quarter pre-tax profits to £138m ($207m) because of the recession and a fierce air fares war. Page 21; Details, Page 28; Lex, Page 20

Yeltsin looks for investment: Russian president Boris Yeltsin begins a visit to South Korea today during which he hopes to revive South Korean investment confidence in his country. Page 4; Russia makes drama out of crisis, Page 3

BASF, one of Germany's top three chemical companies, is planning to cut its workforce by a further 3,400 people next year, according to members of the works council. Page 22

Matsushita, Japan's biggest producer of consumer electronics, revealed the full extent of the fall in Japanese consumer demand when it announced a 55.6 per cent drop in profits to Y67.9bn ($544m). Page 21

ANZ banking group announced net losses of A$579m ($400m) for the year to end-September after bad debt provisions of A$1.9bn. Page 21

Seiko and Casio, Japan's leading watchmakers, suffered sharp falls in pre-tax profits for the first half of the year, largely because of sluggish demand in Japan. Page 24

South Africa cuts rates: The South African Reserve Bank cut interest rates by 1 per cent in response to recent data showing increased weakness in the economy. Page 4

Indian brokers strike: Indian stockbrokers staged a strike in protest at the introduction of hefty registration fees, bringing trading on the country's exchanges to a halt. Page 4

Hitler watercolours: Florence wants to put paintings by Adolf Hitler on permanent exhibition in its Uffizi Gallery. It has appealed to the government to stop 20 Hitler watercolours being exported when they are auctioned.

Britain backs plans to extend democracy in HK

By Alexander Nicoll and Ivor Owen in London and Simon Holberton in Hong Kong

BRITAIN told China yesterday that it strongly supported proposals by Mr Chris Patten, governor of Hong Kong, for greater democracy in the territory and that they were fully consistent with previous agreements between London and Beijing.

Mr John Major, the UK prime minister, assured Zhu Rongji, Chinese vice-premier, that Britain wished to co-operate with China to ensure a smooth transition from British to Chinese sovereignty over Hong Kong in 1997, in accordance with the 1984 Sino-British joint declaration on Hong Kong's future.

Their 45-minute meeting in London, described by Mr Major's office as "brisk and businesslike", may have gone some way towards bridging the rift in Sino-British relations opened when Mr Patten announced his proposals last month. China says Mr Patten's plan is in breach of the joint declaration.

Mr Douglas Hurd, Britain's foreign secretary, discussed Hong Kong at length with Zhu during an hour-long meeting which the UK Foreign Office said was "very amicable".

Mr Hurd told Zhu that Mr Patten's proposals represented no change in British policy on Hong Kong and that they were consistent with the joint declaration and the Basic Law, Hong Kong's post-1997 constitution. He invited counter-proposals and further discussions.

Zhu aroused concern in Hong Kong with remarks in London on Monday which suggested that the dispute might affect economic relations between Britain and China. He asked rhetorically whether, following Mr Patten's proposals, the joint declaration should "go with the wind".

Share prices in Hong Kong fell in response, with the Hang Seng index dropping 206.31 yesterday to 6,088.52 in heavy trading.

Zhu is understood not to have repeated the implied threats in yesterday's meetings.

Mr Patten, who is also in London for discussions with Mr Major and Mr Hurd, told journalists at Westminster: "I hope that we can enjoy a calm and rather cooler debate over the next few months. But it's very difficult if all that happens when you put forward proposals is that some people say 'no', albeit very loudly."

Describing his proposals for extending democracy as evolutionary rather than revolutionary, he said: "What the people of Hong Kong want is a rather larger share in running their own affairs, but delivered in a way which is more likely than not to be sustained beyond 1997."

Mr Major told Zhu of Britain's concern about human rights in China – during his visit to Beijing last year, he gave Chinese leaders a list of names of people suspected to be political prisoners.

Lord Howe, the former UK foreign secretary, is to follow this up by leading a six-member

Continued on Page 20
World stocks, Page 40

Time ripe for deal on farm dispute says Dunkel

By David Dodwell in Washington, David Buchan in Paris and David Gardner in Brussels

MR Arthur Dunkel, director general of Gatt, insisted yesterday that the time had come for the US and the European Community to settle the farm trade dispute, saying agreement would involve painful compromises.

Settlement "will mean we will not get everything we want," he warned.

The director-general of the General Agreement on Tariffs and Trade was also emphatic, after meetings in Brussels with EC trade negotiators last week, and similar talks in Washington this week, that he detected a new determination to reach agreement when talks resume tonight: "I have found two commissioners in Brussels who are convinced they are coming to Washington this week to settle. I have found the same mood here," he said in the US capital.

As he left Brussels for Washington, Mr Ray MacSharry, the EC farm commissioner, said: "I'm there to do business and I hope they are there to do the same. The world wants it and the world needs it."

US officials were more cautious on the eve of the first US-EC talks since the collapse of farm trade negotiations in Chicago two weeks ago. Mr Ed Madigan, US agriculture secretary, said: "We feel that we are clearly at the outer limit of what we can do."

The dispute, which focused on EC oilseed subsidies as well as demands for reform of the EC farm subsidy regime, has brought the two sides to the brink of trade war, and put in jeopardy six years of negotiations aimed at liberalising international trade.

In the negotiations, the US will, above all, press for the EC to provide methods of enforcing the farm production levels that are eventually agreed.

So far, the EC has said that it cannot offer any specific enforcement mechanisms, demanding that the US take on trust that the Community's reforms of its Common Agriculture Policy will deliver the production cuts demanded.

The French farm lobby yesterday displayed mounting concern about an imminent Gatt agreement on agriculture. It pressed the French government to veto any EC deal on US terms.

Mr Luc Guyot, head of FNSEA, the biggest farming union, said the fact that the EC Council of Ministers had instructed Mr MacSharry to continue the talks where he had left them two weeks ago in Chicago was enough for his union to start planning protests.

For his part, Mr Jean-Pierre Soisson, French agriculture minister, indicated that a veto by Paris was unlikely. He appeared to state France's price for a Gatt deal: "a review and renegotiation" of last May's EC agricultural reform "to take account of French farmers' legitimate interests."

Mr Soisson also insisted that France had won more support than the European Commission and the UK presidency of the EC claimed. "There have been two councils [of ministers] going on here, the real one and the one described by the British presi-

Continued on Page 20
Curtain set to fall, Page 5

Austria gives temporary haven to Bosnians barred by Major

Britain under fire on refugee policy

By Ivo Dawnay and Sheila Jones in London, Frances Williams in Geneva and Judy Dempsey in Bonn

THE BRITISH government was thrown on the defensive yesterday as a political outcry greeted its refusal to accept as refugees 183 Bosnians stranded on the Slovenian border with Austria.

Opposition parties charged the Conservatives with callous inflexibility and one Liberal Democrat MP drew parallels with the repatriation of German Jews by Britain in the 1930s. Aid officials and Amnesty International also condemned the British decision.

Mr John Major, the UK prime minister, countered opposition attacks in the House of Commons by insisting that the refugees were no different from 2m other displaced people in former Yugoslavia.

He repeated earlier pledges that the UK would take some 600 recommended by the International Red Cross or the United Nations High Commission for Refugees and was ready to look at further cases. He insisted that a distinction had to be drawn between economic refugees and legitimate cases for asylum from those facing persecution.

"With the best will in the world, we simply cannot take everyone who, for understandable reasons, wants to leave Yugoslavia," Mr Major said.

So far, Britain has taken in far fewer refugees than some other other European countries. Since Yugoslavia's disintegration more than a year ago, the UK has taken 4,000 Yugoslav refugees compared to Germany's 253,000. Sweden and Switzerland have taken more than 70,000 each, while about 50,000 have gone to both Austria and Hungary.

The 183 refugees were bused to the Austrian border by Alert, a charity based in the northern English city of Leeds.

Austria said yesterday it would provide the refugees rejected by Britain with shelter for three months until permanent sanctuary could be found.

Mr Kenneth Clarke, the UK home secretary, defended his refusal to accept all but six of the refugees on the grounds that they failed to meet criteria laid down by the authorities.

"Imposing visa requirements on people who are hardly in a position to get them is cruel and immoral," Mr Claude Moraes, director of Britain's Joint Council for the Welfare of Immigrants, said yesterday. "The mask has slipped. The message is that the government does not want refugees to come to Britain at all."

Mr Chris Lamb, an Alert official who has been at the Austrian border with the refugees, said on BBC radio that the British authorities had obstructed the charity's efforts to fulfil visa requirements, and that they had never been told by the government not to go to the border.

In Bonn, the foreign ministry said all European Community countries had to share the burden in providing security and shelter to tens of thousands fleeing the war in Bosnia.

The United Nations Commission for Refugees repeated its appeal to all countries to keep their borders open for those fleeing the conflict.

Ethnic cleansing, Page 20

One of a group of 183 Bosnian refugees waits at Wurzenpass on the border between Slovenia and Austria for a visa which will allow entry to Britain

Lithuanian poll winner to build links with Russian bloc

By John Lloyd in Vilnius

MR ALGIRDAS Brazauskas, leader of the former Communists who this week won a general election in Lithuania, said yesterday that he had built strong links with the centrist Russian Civic Union bloc now bidding for power in Moscow – and that he expected these forces to prevail in Russia soon.

In an interview with the Financial Times, Mr Brazauskas, whose Democratic Labour party won an absolute majority in the Lithuanian parliament, said he would continue to encourage foreign investment but would also strive to safeguard Lithuania's economic links with Russia.

Russia and the other former Soviet republics still provide most of Lithuania's supplies and take most of its output.

"The former government said everything would come from the west – but where is it? They said we would get western investment. I don't see it," he said.

Mr Brazauskas is thought to prefer a gentler course to a market economy to western-style shock therapy. His views accord with the criticism voiced against the Russian government by General Alexander Rutskoi, the Russian vice-president, and Mr Arkady Volsky, head of the Russian Union of Industrialists.

The election winner reiterated his belief in market reforms, however. "We will continue our agreements with the International Monetary Fund, but they must understand that one third of the people live in poverty and that we may be on the verge of hunger in some areas," he said.

Mr Brazauskas, 60, said he would delay holding an election for a president for at least six months after his party takes power pending discussions with political parties and the passing of an electoral law. Mr Brazauskas will be chairman of the parliament, as was President Vytautas Landsbergis whose Sajudis nationalist movement lost Sunday's poll, but he did not say whether he would run for the presidency.

He reiterated that his party, the successor to the Lithuanian branch of the Soviet Communist party, would now be social democratic and not communist.

On Monday evening, the constitutional court anulled a decision by a commission in the outgoing parliament to examine any links between new MPs and the former Soviet KGB. Observers from the Council of Europe had voiced concern on this decision and on other irregularities in the Lithuanian poll.

■ STOCK MARKET INDICES		
FT-SE 100:	2,678.2	(-0.4)
Yield	4.50	
FT-SE Eurotrack 100	1,055.62	(-2.65)
FT-A All-Share	1,272.58	(-0.05)
Nikkei	15,983.46	(-169.51)
New York: lunchtime		
Dow Jones Ind Ave	3,209.53	(+3.79)
S&P Composite	420.71	(+0.03)
■ US LUNCHTIME RATES		
Federal Funds:	$3\frac{1}{16}$%	
3-mo Treas Bills: Yld	3.230%	
Long Bond	$100\frac{3}{4}$	
Yield	7.550%	
■ LONDON MONEY		
3-mo Interbank	$7\frac{3}{16}$%	(Same)
Liffe long gilt future:	Dec $99\frac{3}{32}$	(Dec $99\frac{5}{32}$)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Jan)	$19.175	(19.25)
■ Gold		
New York Comex (Nov)	$334.4	(333.9)
London	$334.15	(335.75)

■ STERLING		
New York lunchtime:		
$	1.5175	
London:		
$	1.52	(1.5195)
DM	2.43	(2.415)
FFr	8.1825	(8.145)
SFr	2.2075	(2.185)
Y	189.25	(189.75)
£ Index	78.1	(77.9)
■ DOLLAR		
New York lunchtime:		
DM	1.59875	
FFr	5.385	
SFr	1.454	
Y	124.455	
London:		
DM	1.598	(1.59)
FFr	5.3825	(5.36)
SFr	1.453	(1.4375)
Y	124.5	(124.8)
$ Index	65.5	(65.2)
Tokyo close Y 124.56		

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Hungary	Ft182	Malta	Lm0.50	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr160	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs36	Thailand	Bht50
Finland	FM12	Korea	Won 2500	Philippines	Peso45	Tunisia	Din1.250
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00

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NEWS: EUROPE

German parties to hold talks on constitution

SPD's shift to centre aids asylum law reform

By Judy Dempsey in Bonn

GERMANY'S ruling coalition and the opposition Social Democratic Party (SPD) are expected to open talks later this week on amending the constitutional right to asylum following the outcome of the SPD's emergency congress which ended yesterday.

By agreeing to amend the country's asylum laws, as well as voting to allow German troops to play a role in United Nations peacekeeping missions, the party has clearly shifted towards the centre, leaving the traditional left, and the pacifist wing increasingly marginalised.

The compromise, reached after midnight, would cut through much of the red tape entangling asylum procedures but keep the controversial right to asylum firmly entrenched in Bonn's post-war constitution.

The decisions, which both require constitutional amendments, also strengthened the authority of Mr Björn Engholm, the SPD leader, who threatened to resign if the party congress defeated these two proposals.

Mr Engholm also warned delegates that a rising racist backlash, which has spread from attacks on foreigners' hostels to open anti-Semitism, could lurch German politics sharply to the right if Bonn did not tackle the asylum crisis.

Government officials yesterday said talks between the coalition of the Christian Democratic Union/Christian Social Union and Free Democratic Party, and the SPD should begin as soon as possible.

"Asylum is the number one issue on the political agenda. We are very glad the SPD voted to amend article 16 of the constitution," a foreign ministry official said.

Mr Volker Rühe, the defence minister, said the SPD's decision to drop its opposition to any role for German troops in international peace-keeping efforts, was "a step in the right direction."

After a heated discussion, punctuated by references to the Nazi period and Germany's militarist tradition, delegates agreed that German troops should start playing a role in peacekeeping missions, but only under a UN security council resolution.

They agreed that the Bundeswehr, or German army, should provide back-up for humanitarian relief operations, but not play a role in peacemaking. Nevertheless, the decision represented a considerable shift in policy compared to last year's congress.

Mr Klaus Kinkel, the German foreign minister, has proposed that the Bundeswehr be deployed in any crisis in the world provided it operated within the guidelines of a UN Security Council resolution and that any peacekeeping activities obtained the consent of both sides in the conflict.

The coalition and the SPD agree that the Bundeswehr should not participate in any Nato or Western European Union activities which take place outside Nato territory.

SPD leader Björn Engholm (left) and his deputy Oskar Lafontaine voting for the reform resolution at the end of the party congress

MEPs urge adoption of HDTV proposal

MEMBERS of the European Parliament yesterday urged EC telecommunications ministers to adopt the European Commission plan to promote wide-screen cinema-quality television in Europe, writes Andrew Hill in Strasbourg.

Some MEPs raised doubts about funding for the Ecu850m ($1bn) plan. Britain, which will chair tomorrow's meeting of ministers in Brussels, could veto the plan because it is does not believe the Commission has justified heavy spending on high-definition television (HDTV).

Mr Filippo Maria Pandolfi, EC telecommunications commissioner, said yesterday that the Commission could back MEPs' suggestions that the strategy's priority should be the wide-screen format, using a range of standards, including those in which European manufacturers have already invested heavily.

The parliament's role in HDTV legislation is purely advisory.

However, its amendments have influenced the Commission's strategy in the past.

Albania backs down on Kosovo

By Kerin Hope, recently in Tirana

THE Albanian government, facing domestic problems this winter because of severe shortages of food and fuel, is diluting its traditional support for ethnic Albanians in the neighbouring Serbian province of Kosovo.

Mr Sali Berisha, the Albanian president, no longer speaks of Kosovo as "the other half" of Albania, although he still backs the Kosovo Albanians' demands for autonomy from Serbia.

Albanian officials claim the government is not committed to providing military support for the Kosovo Albanians if fighting breaks out there. The next flashpoint is likely to be the Serbian elections on December 20 which the Albanian majority in Kosovo has vowed to boycott. "The Albanian army is not in a position to intervene against the Serbians. We don't have enough weapons or equipment. All we can hope to do if there is conflict is to guard our own border," said one official. Nevertheless, officials accept that young Albanians would cross the border in large numbers to join local militias or help protect relatives. Attempts to reorganise Albania's 100,000-strong conscript army in the past few months have included concentrating troops close to the northern and eastern borders with Kosovo.

Mr Berisha has called for military action by Nato and the West European Union against Serb forces who have seized most of Bosnia. The Albanian government has also accumulated small stockpiles of food and medical supplies in northern towns in case refugees from Kosovo start to arrive. However, Albania would be unable to accommodate more than a few thousand refugees, given the government's continuing difficulties in providing basic food supplies.

Despite being granted a $25m stand-by loan from the IMF earlier this year, intended for importing raw materials for the food processing industry, Albania will again be dependent on European Community food aid to get through the winter. The EC ships flour and rice to Albania from Italy and Greece. But bread is rationed, together with other staple foods sold at state shops, while food prices at private shops are prohibitively high. The collapse of the state distribution networks means that no coal or wood is available for domestic heating in Albanian towns.

An American fact-finding mission to Macedonia yesterday called for the former Yugoslav republic to be internationally recognised, Reuter reports from Zagreb. Senator Denis Deconcini and Congressman Frank McCloskey, on a mission for the Conference on Security and Co-operation in Europe, said in a statement: "We left Macedonia convinced that international recognition of that country would be the right thing to do, and that it should be done immediately." The two also expressed concern for the treatment of Macedonia's ethnic Albanian community.

■ Macedonia warned yesterday that tighter UN sanctions against Serbia would be a disaster for its own energy-starved economy.

Finance Ministry advocates participation in Emu

Swedish deficit set to rise

By Robert Taylor in Stockholm

SWEDEN'S huge budget deficit looks set to climb to SKr195bn ($32.5bn), 13.8 per cent of the country's gross national product, in this financial year that ends next July 1, according to Carnegie Fondkommission, the Swedish investment company.

Faced with mounting demands for financial support from the banking sector and the cost of escalating unemployment, the Swedish government's current forecast of a SKr160bn budget deficit in the 1992-93 financial year is regarded by Carnegie as unrealistic.

It believes that between now and July 1, 1993, the government will need to increase its borrowing requirement to SKr255bn on the assumption that there is no new round of spending cuts and the krona remains at its present fixed exchange level against the Ecu. Of this, some SKr60bn will be allocated in loans to banks and social funds and will be recoverable.

This forecast may add to anxieties on the money market. Last week the central bank intervened and increased liquidity with its decision to buy SKr45bn of treasury bills.

Also yesterday, a report published by the Ministry of Finance said that Swedish participation in European Economic and Monetary Union (Emu) would be of enormous benefit to the economy.

Mrs Anne Wibble, the finance minister, said participation would create a "positive spiral" of lower interest rates, increased investment, less credit losses and more jobs.

The detailed report lists many advantages of Emu and suggests there would be a savings in currency transaction costs of between SKr4bn and SKr6bn a year at 1991 prices. It says membership of Emu would provide a strong boost to investment and longer-term price stability.

The study has been published on the eve of today's debate in the Swedish Parliament which is expected to ratify agreement on creating the 19-nation European Economic Area, which is due to come into force on January 1.

Riot police in Athens battle with anarchists

POLICE charged hundreds of Greek anarchists rampaging through central Athens yesterday, hurling petrol bombs and setting office buildings alight, Reuter reports from Athens.

For the second night running, police used batons to disperse more than than 500 anarchists who set fire to two banks, a post office, the building housing an office of the ruling New Democracy party, about six bus ticket booths and a fire engine.

The youths moved through the capital by trailing behind a march marking the anniversary of the 1973 Athens student uprising against the military junta which ruled Greece between 1967 and 1974.

On Monday, Greek anti-riot squads fired teargas and battled with some 200 anarchists who swarmed through streets near the polytechnic.

Poland's PM may face crisis

By Christopher Bobinski in Warsaw

GROWING pressure in Poland for a referendum on abortion is embarrassing Prime Minister Hanna Suchocka and threatening discord in the governing coalition.

Strict laws banning abortion and bringing in prison sentences for both doctors and women who perform such operations are almost certain to win a majority in parliament in a forthcoming vote.

However, a national committee led by Mr Zbigniew Bujak, a left-wing deputy and former Solidarity leader, is pressing for a referendum on the issue.

A meeting of Ms Suchocka's Democratic Union (UD) party in Poznan voted to back a referendum, prompting the prime minister to say the vote was "the greatest setback in the four months her government had been in existence". "This decision means that I have moved away from the Union," she added, tearing up her delegate's ticket.

Ms Suchocka is a supporter of the abortion ban and fears the political consequences of allowing the referendum go ahead.

The UD is one of the main parties in Poland's governing coalition. A key coalition partner is the right-wing Catholic ZChN party which is a determined supporter of a strict abortion ban.

Major set for Iberian talks

Mr John Major, the British prime minister, will visit Portugal on December 1 for talks about the forthcoming European Community summit in Edinburgh, Reuter reports from Lisbon.

A Portuguese government spokesman said Mr Major would meet Portuguese Prime Minister Anibal Cavaco Silva and hold talks with Spanish Prime Minister Felipe González on the same day.

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Russia makes drama out of economic crisis

Politics holds the centre stage, writes Leyla Boulton

AN AIR of unreality has crept into the tortured debates on how to save the Russian economy from catastrophe. Politicians talk about merging economic programmes which are little more than rival collections of slogans, while economists are unable to tackle real economic problems because politics get in the way.

The most imminent danger for the country is hyperinflation, which could destroy most of the real progress made in building a market economy. Yet the melodramatic nature of Russian politics means that most of the government's energies are focused on surviving the December 1 session of the super-parliament which has threatened to remove it from office.

In the interim, the government's policy consists of talking in reassuring tones but acting in a manner which suggests chaos within, even as it continues to make slow headway in building a market economy with privatisation and other structural changes.

Mr Viktor Gerashchenko, central bank chairman, said yesterday that President Boris Yeltsin's decision to include him in the government would not mean greater government control over monetary and credit policy, writes Leyla Boulton. He said he remained answerable first of all to parliament, even though he welcomed moves to strengthen co-operation with the government.

It also emerged yesterday that Russia has decided to withdraw its first $1bn credit tranche from the IMF after months of hesitation, expressed primarily by the central bank.

The ambitious aim of its six-month anti-crisis programme, announced on Monday, is both to boost social welfare spending and to stimulate collapsing output with a selective industrial policy. With inflation running at more than 25 per cent a month, the government has just come up with an equally unrealistic 1993 budget that assumes 70 per cent inflation for the whole of next year and a deficit of just 4.8 per cent of gross domestic product. But neither financial stabilisation nor an industrial policy are possible until Russian authorities make the cruel choice of closing down enterprises and making more selective use of scarce resources.

It is not even clear how far the anti-crisis plan is a real policy. In another symptom of what one western academic called "programmitis" – a Russian habit of producing programmes which are discarded two months later – Mr Yegor Gaidar, the acting prime minister, last week agreed to make alterations to the anti-crisis plan with the help of Mr Arkady Volsky, the head of the industrialists' lobby and a key figure in the Civic Union opposition group.

The picture is not all dark, though. Privatisation is going ahead, and enterprise managers are gradually changing their behaviour in response to market notions like demand and supply. But this fragile progress may be severely disrupted if hyperinflation becomes an everyday reality. The government will then face a choice of trying to reimpose state price controls and the centralised distribution of goods and services, or of trying to get its printing presses to keep up with soaring wages – something they failed to do earlier this year when prices were liberalised.

Some of the problems facing the government have no easy answers and will take time: for instance, establishing normal relations with the other former Soviet republics which are now independent states. This includes the need to establish a clearly defined rouble zone and concerted monetary policies with republics that continue to use the rouble, and keep trading links with those which opt for their own currencies.

On Monday, President Boris Yeltsin ordered his government to enforce world prices supplies of Russian energy to other republics. However, Russia has very little choice but to create credit for these mostly bankrupt republics if it wants to continue receiving supplies from monopolistic factories built originally in those republics on the assumption that the Soviet Union would remain a single country.

Meanwhile, the west is saying that Russia must observe undertakings to the International Monetary Fund before it can get access to more of a $24bn aid package. Yet this package in itself is nothing near the sort of help Russia needs to face unprecedented challenges.

The US, for instance, is pushing for a rapid debt rescheduling which will be paid for largely by the Germans, but is closing its own market to Russian exports like uranium and telling Russia which countries it cannot sell arms to.

Ukraine accuses state oil officials

By Chrystia Freeland in Kiev

UKRAINE's state oil monopoly, Ukrneftokhim, was dissolved yesterday amid allegations that senior officials had amassed huge personal profits by reselling oil purchased from Russia at subsidised prices.

The allegations, made at a press conference yesterday by Mr Yuli Ioffe, deputy prime minister, are part of a wider anti-corruption drive launched by the new government of Mr Leonid Kuchma, Ukraine's recently-appointed prime minister.

Mr Ioffe alleged that a senior Ukrneftokhim official had pocketed $4m by re-exporting oil to a middle-man in the US.

Mr Ioffe also accused the energy ministry of skimming off profits through complicated barter arrangements for the sale of electricity to eastern Europe. He said the state prosecutor was investigating these cases of alleged government corruption and was likely to press charges.

Czechs and Slovaks vote on final split

By Vincent Boland in Prague

THE FINAL constitutional hurdle in the way of the smooth dissolution of the Czechoslovak federation was cleared yesterday. The Czech and Slovak republican parliaments passed a joint resolution authorising the split into two independent republics from next January 1.

The passing of the resolution ends months of wrangling and uncertainty over how the federation should be dissolved, with a majority of deputies in the federal parliament holding out for a referendum on the division of the federal state.

Yesterday's resolution is expected to be endorsed by the federal parliament, however, thus ruling out a referendum.

The resolution was passed by 106-67 in the Czech parliament and by 73-16 in the Slovak parliament.

Also yesterday, Mr Vaclav Havel, Czechoslovakia's former president, confirmed that he would be a candidate for the post of president of the Czech republic after January 1. "I am aware of my responsibility for the political situation in this country and I want to influence it," he said.

According to an opinion poll published earlier this month, 57 per cent of Czechs would like Mr Havel to become their president after the split. The next most popular politician, Mr Vaclav Klaus, prime minister, polled only 5 per cent.

Mr Havel has so far said that he favours a direct presidential election in the Czech republic, but members of the ruling Czech coalition have expressed their support for a parliamentary vote, which could take place next spring.

The Czech parliament is currently discussing a draft constitution for the republic which would limit the presidential powers, making the post largely ceremonial.

Relations between Mitterrand and the Socialists have sunk to a new low

French president parts company with party

By William Dawkins in Paris

RELATIONS between Mr François Mitterrand and France's governing Socialist party have sunk to an all-time low in the past few weeks as the president prepares for life after the Socialist administration.

Both sides have increasingly distanced themselves from each other on a whole range of issues, ever since the traumatically close referendum on European union in September, called by Mr Mitterrand against the advice of several senior Socialists.

What are they up to? Mr Mitterrand is seen by the French press as trying to bolster his personal power to make life difficult for the conservatives, who are on course for a landslide victory in the legislative elections on March 21 and 28.

The Socialists, meanwhile, are said to be resigned to growing apart from an ailing and unpopular president, who might not last the course until the end of his mandate in spring 1995.

While nobody in France is as clever as Mr Mitterrand in dividing the right-wing opposition, politicians on both sides suspect he is equally keen on tripping up his own party. Mr Jacques Chirac, leader of the RPR conservative party, dubbed Mr Mitterrand as "the inventor of permanent civil war as a method of government," in a recent newspaper interview.

Other critics believe Mr Mitterrand wants to snub both sides of French politics at once to reflect voters' general dissatisfaction with the political class, a tactic reminiscent of General de Gaulle's attempts to strike an intimate relationship with the electorate over the head of parliament.

The latest and most dramatic sign of the split between Mr Mitterrand and his troops came with his recent call for a parliamentary high court inquiry into former Socialist ministers' part in a scandal over the distribution of blood infected with the HIV virus. If the case gets through its complex administrative process, which it easily could, the chief defendant some time early next year would be none other than Mr Laurent Fabius, the party first secretary, until recently regarded as the president's chosen *dauphin*.

Leaders of France's two main Green parties outside parliament after signing an electoral pact, (from left): Dominique Voynet, Brice Lalonde, Danielle Olivier-Koeret and Antoine Waechter.

The noose tightened yesterday when the standing committee of the senate, the upper house of parliament, approved manslaughter and fraud charges – the first step to a trial – against Mr Fabius and two other former Socialist ministers, Mrs Georgina Dufoix and Mr Edmond Hervé.

All three deny the charges and say they look forward to this chance to clear their names against what they say is a political campaign by the conservative-dominated senate. They have the clear support of all senior Socialists except for Mr Mitterrand, who has said non-committally that the constitution must do its work.

Asked on television whether he felt betrayed, Mr Fabius said he would rather keep his thoughts to himself. A leading Fabius supporter, Senator Daniel Percheron, was more blunt. "Mitterrand has led us to understand that we are alone and responsible for ourselves," he said.

The blood scandal is only the most dramatic of a series of clashes between the president and his party.

Other examples include Socialist MPs' recent refusal to accept Mr Mitterrand's plans to ban business donations to political parties, and the president's encouragement of Génération Ecologie, led by a former environment minister in the Socialist government, which two weeks ago turned its back on the Socialists by forming an electoral pact with France's other main ecology party, the Verts.

Mr Mitterrand, meanwhile, enraged his party on Armistice Day by sending a wreath to the grave of Marshal Philippe Pétain, reviled by many French people for collaborating with Germany as leader of the Vichy regime during the second world war.

The president has discreetly done this every Armistice Day for the past seven years without attracting a row, as a gesture likely to appeal to a minority of older right-wing voters who remember Pétain as a hero of the first world war.

But this time the Socialist party was not prepared to turn a blind eye to what Mr Henri Emmanuelli, speaker of the parliament, condemned as an "incomprehensible" gesture. However, Mr Mitterrand rarely acts without a clear motive, even if he is the only one to understand it at the time.

Romania given associate membership of Community

By Virginia Marsh in Bucharest

ROMANIA yesterday became the fourth eastern European country to become an associate member of the European Community.

Associate membership will give Romania greater access to Community markets and additional technical and financial assistance. The long-term aim is full EC membership, an agreement initialled in Brussels yesterday says, but this could take around 10 years and depends on Romania's economic performance.

Czechoslovakia, Hungary and Poland were granted associate membership last December. Romania and Bulgaria began joint negotiations with the EC last May, but Bulgarian officials said recently that despite six rounds of talks, they were still some way from agreement, chiefly because of a dispute over access to the EC for Bulgarian agricultural products, especially wines.

Community officials yesterday indicated that Bulgaria could be granted associate membership by the end of the year provided it drops demands for guaranteed access to the EC market.

Bulgaria is eager to gain access to EC markets for highly competitive products in agriculture, textiles and steel, but has run into resistance from recession-hit EC companies in the same sectors.

Differences on trade quotas slowed progress at talks between the community and Bulgaria last week in Brussels.

EC officials visiting Bulgaria on Monday said it was up to Bulgaria to accept the association accord as offered by the community and then discuss export quotas, or to prolong negotiations.

Bulgarian officials maintain that their country's political and economic performance ranks it close to Poland, Hungary and Czechoslovakia and it is important for its stability to be treated on the same footing as these countries.

● The IMF has approved the release of \$77m to Romania, the third tranche of credit granted out of this year's \$360m standby loan, the Romanian national bank said yesterday. Romania's fulfilment of objectives agreed with the IMF up to the end of September had made payment possible.

Moscow cash crisis hits German exports

By Sander Thoenes in Moscow

BETWEEN 1954 and last year, Sachsische Kunststofftechnik Freital exported 12,000 plastic moulding machines from East Germany to the Soviet Union. This year, it has yet to export one.

"Demand for our products in this country is so huge that we could never produce enough," said Mr Kurt Mitsch, the firm's representative in Moscow. "But the Russian customers have no money."

For 40 years, Russia was the main customer for East German products. But last year's collapse of Comecon, the economic community of the Communist Bloc, led to a sharp drop in East German trade with Russia. The recent fall of the rouble, a rising D-Mark and severe cash shortages in Russian industry have slowed German trade with Russia to a trickle.

In 1991, East German supplies to the former Soviet Union dropped 50 per cent to DM10bn (\$6.2bn), and another steep drop is expected this year. Many exporters have cut working hours and staff, while the textile industry may have to lay off 90 per cent of its 450,000 employees.

For Deutsche Wagonbau, maker of nearly all the coaches used on Russian railways, Russian demand is three times higher than its production capacity. But marketing director Mr Hans-Dieter Heinrich says Deutsche Wagonbau has yet to find a way to finance the DM1.5bn delivery of about 1,500 coaches and cargo wagons to Russia in 1993, a deal that covers 70 per cent of its annual production.

If the Russian government can not find the money and the German government does not intervene, Deutsche Wagonbau will have to shut down much of its production line, Mr Heinrich said. He fears for 11,000 jobs at the factory itself, and for at least another 60,000 jobs in the supply industry.

East German businessmen accuse the German and Russian government of dragging their feet on credits. Most exports from the former GDR to Russia should be paid through Hermes export guarantees, provided by the German government with preferential treatment for East German companies.

So far, however, only half of the nearly DM5bn allocated for export credits has been used in Russia. The Russian and German governments had been expected to finalise the Hermes credits by May, but recently the deadline was moved to March 1993.

According to Mitsch and other businessmen, the German government has delayed the process by demanding new guarantees from the Russian government, particularly on the malfunctioning bank of international trade, the Vnesheconombank. The Russian government has in the meantime changed its list of priority goods, requesting medical and consumer goods instead of machine parts, for which the Hermes credits were intended.

Mr Mitsch fears that his business in Russia may not survive to see the credits approved.

For the German government, previously the largest lender and investor in Russia, the bill for bailing out the East German economy has been bigger than expected, and there is simply no money to pay for Russia's bill as well.

Flying start for Russia's satellite-launch industry

The vast former Soviet space facilities have turned to commerce - fiercely undercutting western operators, writes Daniel Green

RUSSIA has launched itself into the world's commercial space industry. With it, the promise of cut-price space services took off, bringing the promise of cheaper telephone links, satellite broadcasting, navigation and weather forecasting.

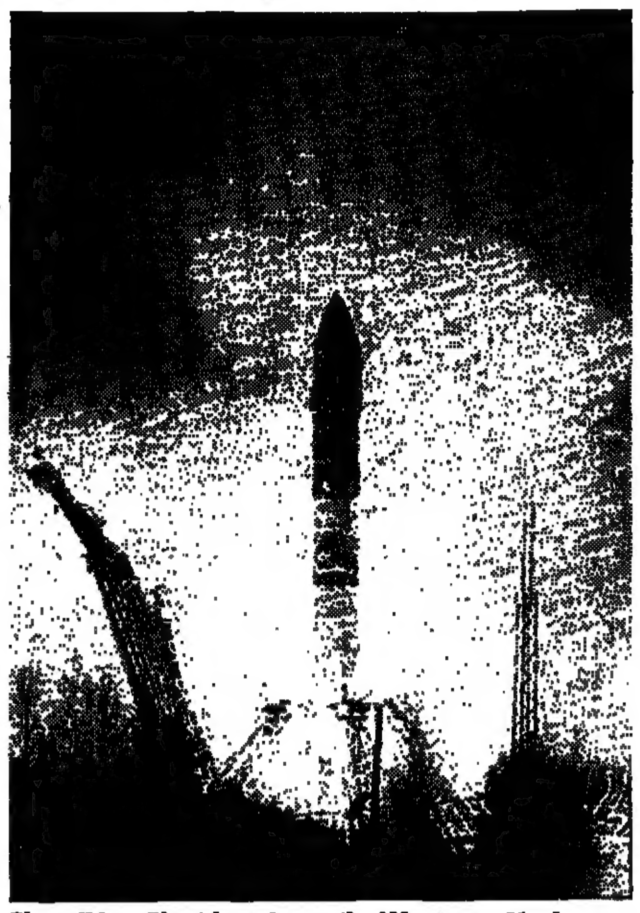
Russia's first western client is Inmarsat, a London-based consortium of 64 national telephone companies that operates satellites for mobile telecommunications.

Inmarsat placed two contracts last week: a launch on Russia's Proton rocket for \$36m, and another for an identical satellite on Europe's Ariane rocket for \$62m.

The price advantage of the Russian launch, which proved so attractive for Inmarsat, threatens the established market leaders in Europe and the US. It is already fuelling demands for protection from low cost rivals in the \$2bn-a-year space launch industry.

A second Russian contract could follow within weeks. Washington-based Intelsat, which operates satellites for ordinary telephone links and has more than 120 members, will decide early next month whether to buy from Russia.

This would be the best possible start for Russian space commerce. It would create the formidable partnership of the world's largest space industry – Russia launches about 70 rockets a year – and the world's biggest independent international satellite owners: Intelsat and Inmarsat have 30 satellites in orbit and plan to launch 14 more by mid-1996.



Blast off from Plesetsk, 800km north of Moscow, on Monday

By comparison, Arianespace, the current market leader, offers about 10 launches a year.

Satellite operators which buy Russian change the economics of the business. A communications satellite costs up to \$140m and a western launch between \$50m and \$100m. Insurance adds another 15-20 per cent and then there are networks of dishes on the ground. A typical satellite has a working life of just 10 years.

Even China is said to be concerned about Russian competition. It made its first two cut-price western launches in the last few weeks but would be no match for the vast Russian space machine.

The three western companies that dominate the industry, General Dynamics and McDonnell-Douglas of the US and market leader Arianespace, are already fighting back.

Mr Charles Bigot, chairman of Arianespace, argues that no level-headed company would buy launch services from Russia. "Russian and Chinese launches are for gamblers or those under political pressure," asserts Mr Bigot.

Gamblers because Moscow has no track record in commercial satellite launches. Insurance rates will be high, as they have been with China, and the lack of experience may leave a satellite in an inaccurate orbit, shortening its lifespan.

The political pressure, he argues, has come from Washington, which controls large minority stakes in Inmarsat and Intelsat through a statutory body called Comsat.

Mr Charlie Lloyd, managing director of commercial launch services at General Dynamics, agrees. "The Bush administration showed a desire to use the launch vehicle industry as a tool of foreign policy without regard to the effects on on the industry and its workers."

Industry sources point to the US decision to allow the export of the first US-built Intelsat satellite for launch in China. Permission was given within days of the US sale of F-16 fighters to Taiwan, to which China had objected.

Intelsat denies that it is under pressure to work with China or Russia. "As an international organisation we have an obligation to consider international bids," it says.

The political dimension to who launches satellites has encouraged US politicians to join the fray.

Mr Al Gore, the new vice president, said in a speech last month: "The emergence of [space industry] competitors from non-market economies increases the opportunities for predatory pricing – the very same economic weapon that foreign countries employed in the 1980s to target and destroy the American manufacturing base."

With simple mechanisms of control, through Comsat and the granting of satellite export licences, President Bill Clinton may not be able to resist calls to save US jobs.

The calls are likely to grow in volume because another new competitor could be about to make its mark.

Japan is also bidding for the next Intelsat launch contract. The country has only a small aerospace industry and no working rocket. But it has emerged from obscurity in many other industries.

NEWS: WORLD TRADE

EC victory in steel tube dumping fight

By Andrew Baxter

EC producers of seamless steel tubes have won an 18-month campaign against allegedly unfair trading after the European Commission found four east European countries guilty of dumping tube in the £500m Community market.

The Commission's verdict has been greeted with *relief* by the west European industry. Imports of seamless tubes, used widely in the engineering sector, had rapidly reached an *intolerable level across the EC*, but especially in Germany and Italy, the Commission said.

The decision is important for seamless tube producers such as *Mannesmann of Germany* and Dalmine, part of Italy's Ilva group, Vallourec of France and British Steel. Over the past two years, the Commission said, *11 EC tube mills* had closed, with 18,000 jobs lost in the past six years.

Mr Raymond Barbier, secretary-general of the EC steel industry's liaison committee, said yesterday the east Europeans' share of the EC market had jumped from 7.8 per cent in 1988 to 13.4 per cent last year, reaching 18 per cent this year.

The liaison committee lodged an anti-dumping complaint in May last year, and the Commission opened an investigation in December. It now says the case is fully justified, serious injury has been caused to the EC industry and dumping prices have been used.

"To try to resist the proven dumping of these four countries, Hungary, Poland, Czechoslovakia and Croatia, EC producers had to reduce sales *prices on several occasions*, without succeeding in reducing the flow of these imports," the Commission said in its judgment.

"All the Community producers are in difficulties, and further plant closures and job losses are feared."

From November 15, all seam*less tube* imports to the EC will incur 21.7 per cent duty for Hungary, 10.8 (Poland), 30.4 (Czechoslovakia) and 17.4 (Croatia). The Croatian duty will be temporarily suspended because the civil war has severely disrupted exports.

Seamless tubes are not covered by the 1951 European Coal and Steel Community treaty under which main European steel producers are seeking urgent action from the EC against allegedly subsidised east European imports. But the problems of the tube producers and the general steel industry are "absolutely similar," Mr Barbier said.

Kuwait to go ahead with $2bn petrochemical plant

KUWAIT will proceed with plans to build a $2bn petrochemical complex even if it cannot find a foreign partner, Mr Ali al-Baghli, the Gulf state's new oil minister, said, Reuter reports from Kuwait City.

He said Kuwait would prefer to work with a foreign company which could provide technical expertise and help with marketing the products and training Kuwaiti staff.

But he added: "If it does not reach agreement with a foreign partner...the company will proceed with implementing the project without foreign participation."

The project was approved in principle before the Iraqi invasion in August 1990, and state-owned Petrochemical Industries Company (PIC) has been looking for a partner to revive it since the liberation of Kuwait last year.

The complex would produce ethylene and its derivatives.

Unctad to build trade information network

By Frances Williams in Geneva

THE United Nations Conference on Trade and Development (Unctad) plans to set up 19 "trade point centres" by mid-1993, paving the way for development of a global information network for international trade.

The centres are intended mainly to help small and medium-sized companies in both rich and poor countries, to *reduce the cost of trade* transactions and gain better access to world markets by exploiting information technology and electronic data systems now used routinely by big corporations.

Officials say widespread adoption of paperless trading alone could cut transaction costs 25 per cent by the year 2000. The UN puts these costs at $300bn (£198.6bn), some 10 per cent of world merchandise trade, implying potential global savings of $75bn.

Fears exist that small companies, especially in developing countries and eastern Europe, could face exclusion from an increasingly globalised trading system based on paperless transactions.

"Unctad's main concern is that everyone is able to share equally in the modern technology," says Mr Jean Gurunlian, head of Unctad's trade efficiency programme.

Experts from 70 countries meet in Geneva this week to discuss implementing Unctad's plan. Experience from about 19 pilot projects will be consid*ered at a world symposium on* trade efficiency set for 1994.

The centres are financed mainly by governments and/or the private sector, though the US, *Switzerland*, Germany and Italy have contributed to Unctad's development work. Companies will pay a fee to use the centres, eventually to be linked in a global network.

The idea is to bring together all participants in a trade transaction (buyers, sellers, banks, insurers, customs authorities), the technology used depending on the country's level of development.

Main protagonists

Ray MacSharry European Commissioner for agriculture | Frans Andriessen European Commissioner for external affairs | Jacques Delors European Commission president | Jean-Pierre Soisson French agriculture minister | Ed Madigan US secretary of agriculture | Carla Hills US trade representative

Curtain set to fall on Gatt drama

Since the Round began, critics agree it is worthy but tedious. David Gardner and David Dodwell report

ONE of the world's longest-running theatre productions, the Uruguay Round, may be nearing its final curtain at talks in Washington tonight and tomorrow, as the EC and US try to settle rows over competing food exports, and clear the way for far-reaching trade reform.

Since the Round was first staged six years ago, critics agree it is worthy, but tedious to watch. But in its final scenes, the dramatis personae have sparked flashes of melodrama, enlivening the tale for those who sat through the monotony, and those wanting a happy ending.

The Americans woke the audience by introducing trade war into the plot: a battery of $300m (£198.6m) punitive tariffs on EC food exports from December 5 *unless the Europeans* please US soyabean farmers by agreeing a ceiling on EC oilseeds output. Another $1.7bn of US sanctions could *follow, with the EC hitting* back over US goods.

The chemistry of relations either between US negotiators, or US negotiators and their EC counterparts, has probably influenced the Round less critically than the volatile relationships at the EC's highest echelons. Mr Ed Madigan, US agriculture secretary, has said negotiating with the EC is like doing so with the Keystone Cops; US officials have said differences of opinion at the top of the EC have led to paralysis.

Mr Madigan and Mrs Carla Hills, US trade representative, draw their authority from President Bush, and have always entered talks with a clear brief defined with his agreement. Mrs Hills has been as subject to the lobbying influence of US farmers as Mr Madigan, and has apparently not disagreed with him over the "bottom-line" positions the US should adopt to a farm trade deal.

The transatlantic chemistry has helped progress to a deal. As two Irishmen, Mr Ray MacSharry, EC agriculture commissioner, and Mr Madigan appear easy with each other. Mr Madigan's complaints have never been pointed at Mr MacSharry, although US and EC bottom-line positions remain frustratingly irreconcilable. It is yet to be seen if these positions can come closer.

The chemistry has helped, *too, in the relationship* between Mrs Hills and Mr Andriessen. The two have come to know each other well, and caused Mrs Hills' rather *humourless, lawyerly qualities* to soften. Mr Andriessen is seen to have has played a role in counselling Mrs Hills on French obsessions, encouraging her to moderate retaliation over oilseeds. Mrs Hills' legal background must help explain her indignation over EC refusal to bow to two Gatt panel rulings against its oilseeds subsidies. She believes she fought and won fairly two legal battles, and is outraged at EC prevarication.

Mr Dunkel, who entered the frame for the first time this year when mandated by Gatt to mediate between the US and the EC, has spent the 11 months as a spectator, his patience and conciliation tested to the extreme. He knows his intermediatory role has limited effect. He hovers at the margins, reminding negotiators more is at stake than farm trade, and more countries' interests are involved than just the EC and US. If he thinks important negotiating time has been spent on the US-EC farm row, he has been successful, veiled as normally in a cloud of Gitane smoke, in hiding it.

The Europeans, coming from 12 wrangling nations, offer a more numerous cast, leading to US complaints that Washington never knows who speaks for the EC: the European Commission, the Council of Ministers, France, Germany, or the UK. This is a trifle disingenuous, since the US administration often appears to European eyes as an archipelago of agencies acting out competing sub-plots. The Americans have a point.

There are a lot of Euro-players, frequently seeming to read from different scripts. The main ones have been: Mr Ray MacSharry; Mr Frans Andriessen, external affairs commissioner; Mr Jacques Delors, Commission president; and Mr Jean-Pierre Soisson, Mr John Gummer and Mr Ignaz Kiechle, agriculture ministers respectively of France, the UK and Germany. Mr MacSharry, the bruiser in the Euro-cast, sticks obstinately to his line when he has made up his mind. The Americans like dealing with him because of this consistency. "The first thing I do when I go into talks is put myself in the other fellow's seat," he said a year ago, as he started bludgeoning 12 unanimously opposed EC agriculture ministers into agreeing the farm reform, ostensibly the basis for the Round's negotiations.

Mr MacSharry's public row with Mr Delors 10 days ago helped force the EC camp into deciding if it would (more or less) unite to try to negotiate a deal, or prepare for transatlantic trade hostilities. Mr Delors, whose vision relaunched Europe to greater integration, was accused of siding with France on the farm question. Some of his colleagues suspect he nurses ambitions to be its president. His attempts to restrain Mr MacSharry from reaching what he sees as a deal too favourable to the US partly reflects a desire for Europe to stand up to its "big brother", and a romantic attachment to rural France which he fears will erupt in ire if French farmers feel sold out. The dispute with Mr MacSharry has damaged him in Europe, but may end by enhancing his reputation in France.

Mr Andriessen has guided the other strands of the Round towards its end. Ranging from services to intellectual property, they are more important but less contentious than the farm issue. Mr MacSharry has clashed with him frequently, believing him too accommodating to the US. The Commission negotiates on behalf of the EC, mandated by national ministers who appear further down the acting credits. The ministerial mandate comes from their national leaders, often making it hard to distinguish between their performances for the gallery and their underlying role in the plot.

Pivotal is Mr Kiechle from Bavaria. *The central problem* of EC agriculture is that its prices have been set to match the high costs of a long-standing German farm structure. When he was cajoled by his divided German coalition partners to agree sharp price cuts in May, farm reform was in the bag. hard

Mr Soisson *is* the unhappiest member of the cast. Given the farm job barely a month ago with explicit instructions to stop any deal inimical to French farming, he fast found any deal would be worse than what French farmers have been told. But his suggestion that Frenchmen should drink more white wine targeted by US sanctions has added farce to the plot.

Long trek ahead for S Africa on the road from apartheid

F.W. de Klerk remains the only person who can complete the country's democratisation process, writes Patti Waldmeir

THREE years after President F.W. de Klerk started South Africa's trek away from apartheid, the most positive thing to be said about him is that only he can complete the process: if, indeed, it can be completed at all.

Whether or not he knew about the criminal farce perpetrated by his security forces against the African National Congress (ANC); whether or not he has, as must now be suspected, a deliberate policy to destabilise and undermine his political opponents; whether or not he is, as must be open to doubt, the "man of integrity" whom ANC President Nelson Mandela once trusted; the fact is that the new South Africa cannot be born without him.

But after Monday's revelations of low-life trickery from the military (involving an intelligence plot to use criminals and prostitutes to infiltrate the ANC's military wing), coupled with growing suspicions of far worse official crimes, doubts have been raised whether President de Klerk has the will,stamina, tact and skill to deliver a new multi-racial democracy.

To prove he has, he must take action to tame his security forces, or abandon hope of a new South Africa. Failure would suggest that he is either too weak or too devious to succeed.

The consequences of failure are already apparent. South African society is in crisis on almost every level: every week brings revelations of official plots to discredit the ANC and new allegations of official assassinations; every day seems to bring to light a new government corruption scandal, an unedifying display of venality and incompetence which may have cost South African taxpayers billions of rands.

True to the traditions of Africa, a continent scarcely renowned for governmental probity, no ministers have resigned as a direct result of scandal. But the cabinet has been severely weakened none the less, as some of the most able ministers have resigned due to ill health or mental or marital problems.

Meanwhile, black families continue to be massacred as politicians demonstrate lack of will to stop the violence. Leaders of the parties who signed a national peace deal last September (including the ANC and the mainly-Zulu Inkatha) refuse even to meet to discuss its implementation.

Mr F W de Klerk returned from an overseas visit yesterday to face calls for his resignation over revelations of an official military intelligence plot to discredit the African National Congress (ANC), Patti Waldmeir writes.

Mr de Klerk said in a television interview before leaving Britain on Monday night that only a "few individuals" within the security forces could have been involved in such activities, although the judge who disclosed the plot made clear it was sanctioned by the army's top intelligence officer, Gen "Witkop" Badenhorst. Yesterday the convicted murderer named as the main intelligence operative involved in the plan denied it had ever been put into place. The man, Mr Ferdi Barnard, has been convicted of two murders and theft.

And the dark mood of the nation is further blackened by economic decline. South Africa is completing its fourth dreary year of recession, and good rains to break the drought cannot on their own guarantee substantial recovery.

Only a political deal on a new constitution can achieve that, but progress is painfully slow. Moderate ANC elements as well as moderates in Pretoria demonstrate the will to do a deal to govern South Africa in the transition to full democracy, but they have agreed few details. And even if they do, both sides may face sabotage from their own stubborn radicals.

The two main players, government and the ANC, are due within a fortnight to retreat to a marathon negotiating session of up to a week. But such evidence of cozy collusion enrages Chief Mangosuthu Buthelezi, leader of Inkatha, and peace in Natal can never be guaranteed as long as he remains estranged from negotiations.

Revelations from the respected Goldstone Commission into political violence have cast a further shadow on the president's reputation. Mr Justice Goldstone, never one to jump to unwarranted conclusions, clearly believes that he is on the trail of a Third Force of security force members used to destabilise the ANC. Others, less circumspect, insist a Third Force had at least some role in fomenting the violence which has left thousands dead since Mr de Klerk took power.

Mr de Klerk has consistently shied away from his most difficult problem: how to rein in the security forces, to ensure that they operate impartially but without provoking a revolt. South Africa's political violence cannot be tackled until the organs of state security prove their legitimacy and commitment to law and order. With their Wild West morals and conservative political views, that will not be easy.

But, as South African political scientist Frederik van Zyl Slabbert points out, "a new government, particularly a democratically elected one, that inherits a recalcitrant civil service and especially an antagonistic security force is a recipe for disaster and will make short shrift of any democratic constitution."

Much will depend on whether President de Klerk can regain the initiative lost in recent months. His strategy demands a position of strength. His goal is to legitimise the political system while retaining a substantial share of power for whites. In other words, to reform, not to revolutionise.

But to reform the state is far more difficult than to destroy it, as Mikhail Gorbachev can attest from his reformist experiment in the former Soviet Union. The next few months will tell whether Mr de Klerk can succeed where Mr Gorbachev so tragically failed.

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Labor hit by report on loss by state bank

THE Australian Labor Party's formerly strong grip on state governments was further weakened yesterday by a damning royal commission report on losses of A$3.1bn (£1.4bn) incurred by the State Bank of South Australia, writes Kevin Brown in Sydney.

The report found no evidence of corruption or illegal activity by the South Australian Labor government. However, it said the state government should have known about the bank's serious financial problems.

The report was severely critical of Mr John Bannon, the state premier and treasurer (finance minister), who quit in September to take the political blame for the bank's losses.

Mr Samuel Jacobs, the royal commissioner, said Mr Bannon interfered in the bank's commercial activities, and failed to monitor its rapid asset growth or take action to deal with its growing problems.

Mr Bannon, a former Labor Party federal president, said he had been kept in the dark about many of the bank's activities. He rejected the commission's findings as "extremely hurtful and unfair." Mr Lynn Arnold, the premier, distanced the government from the report, which he said failed to establish how the bank's problems could have been avoided.

Indian brokers in strike over fees

By Stefan Wagstyl in Calcutta and R C Murthy in Bombay

INDIAN stockbrokers yesterday staged a strike in protest at the introduction of hefty registration fees, bringing trading on the country's exchanges to a halt.

The strike will do nothing to restore investors' confidence in the market, which has suffered this year from the Rs35bn (£812m) Bombay securities market scandal.

Furthermore, it will aggravate the danger of defaults among investors and brokers since a rapid fall in share prices in recent weeks has strained finances. The Bombay stock exchange (BSE) index has fallen by more than a fifth in the past month.

It was not clear last night which exchanges would open today.

Brokers were expressing their anger at the actions of the Securities and Exchange Board of India (Sebi), the newly established industry watchdog.

The watchdog has proposed charging a registration fee of Rs5,000 plus a turnover fee of 0.01 per cent of turnover. This has angered brokers because the revenues they raise from trading varies greatly between different kinds of business, such as own account trading and client account trading.

Mr Ajit Day, president of the Calcutta Stock Exchange, said the proposed fees were "ridiculous".

Earlier this year brokers staged a two-week strike when the watchdog first introduced the principle of registration. But the authorities eventually got their way. This time, too, the brokers' protests could well fail since many firms would be unable to sustain a long suspension of trading.

The president and vice president of the Bombay stock exchange will meet Mr G V Ramakrishna, chairman of Sebi, this morning ahead of a general meeting of the brokers at the exchange.

The strike coincides with a the arrest of a leading Calcutta stockbroker on allegations of fraud in the latest twist in a payments crisis which has paralysed trading for a week.

The exchange was closed after brokers noticed forged documents being passed in settlement transactions. The market was re-opened partially yesterday.

Mr Day said about eight of the exchange's 630 members had serious problems settling claims totalling about Rs150m-Rs170m.

Mr Day, who represents the fifth generation of his family in stockbroking, regretted the fact that the crisis had blown up after Calcutta had avoided any involvement in the scandal which this year hit the Bombay market. He named the broker as Mr Dilip Dugar, head of a firm called Bajrang Lal Mahabir Prasad.

INDIANS QUEUE FOR SHARES: Hundreds of Indian investors queue outside a New Delhi bank yesterday to file applications for shares in Indian Petrochemicals Corporation, the first state-owned company to offer a public equity issue.

Saudi economy records 6.6% growth

By Mark Nicholson, Middle East Correspondent

SAUDI ARABIA'S economy grew by 6.6 per cent last year, Sheikh Mohammed Ali Abal-Khail, the finance minister, has disclosed to a local newspaper.

Sheikh Mohammed did not specify if the figures, the first official estimates for growth in 1991, represented real or nominal growth, nor did he quote a figure for gross domestic product. But economists in the kingdom said the minister's figure is in line with their own estimates of real GDP growth for the year. The estimates for 1991 output show a sharp fall from the economy's 18 per cent real GDP growth in 1990.

However, during 1990 the economy benefited from higher oil prices after Iraq's invasion of Kuwait and from the boost to the private sector from supplying US forces during Desert Shield.

Sheikh Mohammed said in Okaz newspaper that the kingdom's industrial sector had grown by 9.1 per cent in 1991, against a 8.9 per cent growth the previous year. Much of the growth is attributable to a rise in the kingdom's petrochemicals output.

Saudi Arabia, the world's largest oil exporter, is pumping at least 8.45m barrels of crude a day. The kingdom recently denied reports that it was raising production to 8.8m b/d for November.

More detailed figures on the Saudi economy's 1991 performance are expected later next month in preparation for the kingdom's 1993 budget, expected around New Year.

Mr Henry Azzam, chief economist at National Commercial Bank, Saudi Arabia's biggest, said he expected the government then to announce an expansionary budget and a continued public sector deficit.

The kingdom forecast a $8bn deficit in its 1992 budget, which economists say is being easily covered by domestic financing.

Mr Azzam said he expects the economy to show real growth of around 6 per cent for 1992 given the relative stability of oil prices.

S African interest rates cut

THE South African Reserve Bank (central bank) yesterday cut interest rates by 1 per cent in response to recent data showing increased weakness in the real economy and evidence that monetary policy is achieving its goals of greater financial stability, writes Philip Gawith in Johannesburg.

Mr Chris Stals, governor of the central bank, said it would be lowering its benchmark lending rate - the Bank rate - from 15 to 14 per cent in response to the more stable financial environment and in anticipation of a further lowering of inflation.

The rate cut, the fourth since March 1991, had been widely discounted in the money markets.

The average tender rate for Treasury Bills with a maturity of 91 days, for example, declined from 13.38 per cent on 3 July to 12.16 per cent on 13 November.

Mr Stals cited sustained lower money supply and credit extension figures, and the downward trend in producer and consumer price inflation (13.5 per cent in September 1992) as supporting a rate cut. He also referred to recent figures from the Central Statistical Service (CSS) suggesting real gross domestic product shrunk at an annualised rate of 5.7 per cent during the third quarter of the year.

Syria delays troop pull-out

Syrian troops will not leave Beirut until the country has completed all political reforms foreseen in the 1989 Taif peace accords, Syria's vice president responsible for policy in Lebanon said yesterday, Lara Marlowe writes from Beirut.

Mr Abdel-Halim Khaddam's remarks, broadcast on Radio Monte Carlo, confound hopes that Syrian troops would redeploy to east Lebanon before the year end.

Mr Khaddam said Lebanon had failed to abolish its sectarian system of government - in which political positions are alloted according to religious affiliation - which in his view was the most important Taif reform.

UN underlines commitment to Cambodian election next year

By Alexander Nicoll, Asia Editor

UNITED NATIONS participation in the Cambodian peace process is expected to be strongly reaffirmed by the Security Council, despite the refusal of the Khmer Rouge to co-operate.

A draft Security Council resolution, due to be passed within a week, underlines the determination of the international community to hold elections in May 1993 whether or not voting is possible in areas held by Khmer Rouge guerrilla forces.

The resolution is likely to be acceptable to all the countries which played a big part in engineering last year's peace agreement which was intended to end the 13-year civil war.

There are disagreements about the degree of response to failure of the Khmer Rouge, which was a party to the accord, to abide by it. The Khmer Rouge has refused to allow the UN access to the areas it controls, has violated the ceasefire, has fired on UN helicopters and has not disarmed or cantonned its troops.

The resolution is expected to state that economic penalties would be used against the Khmer Rouge if it attempted to disrupt the elections or registration of voters, but to stop short of mandatory sanctions.

To deter disruption, UNTAC – the UN Transitional Authority in Cambodia – will maintain its military strength at 16,000 troops until the May elections instead of reducing them to about half that number as had been planned.

The troops will put less emphasis on cantonment of the military forces of Cambodia's factions – which has not been a success for most of them and has been ignored by the Khmer Rouge. Instead, UN troops will be deployed across the country to help ensure undisturbed registration of voters.

UNTAC is an unusually extensive $1.6bn operation designed under last year's peace agreement to steer Cambodia from its civil war to the establishment of a freely elected government.

It plans to keep voter registration lists open until around the end of January, giving time for UNTAC to mount a campaign to educate voters about the elections.

A Security Council decision to reinforce UNTAC's mandate reflects a belief that Khmer Rouge forces are not strong – estimates vary from 5,000 troops to a maximum of 30,000 – and that elections can be held without serious disruption.

Khmer Rouge violations of the ceasefire have sometimes been exaggerated by the Phnom Penh government, western officials say.

It is estimated that areas not held by the Khmer Rouge represent about 85 per cent of Cambodia's territory and around 90 per cent of the populace. The officials say this would be sufficient for a new Cambodian government to win international recognition.

Officials who believe there has been progress in Cambodia point to the repatriation of 175,000 Cambodians from Thai border camps. They say most have chosen to return to their villages and that none has been killed despite the danger from landmines. The target is to re-settle the remaining 100,000 or so before the elections.

Mandatory sanctions are unlikely to be agreed because of the misgivings of some governments, including Thailand and France, about the value and effectiveness of sanctions against the Khmer Rouge.

Mr Boutros Boutros Ghali, UN secretary-general, has recommended to the Security Council tighter immigration controls on Cambodia's eastern border with Vietnam and customs checks on the exportation of lumber and gems on the Thai border.

In a report, he dismissed Khmer Rouge claims that Vietnamese troops had infiltrated Cambodia, saying there was no evidence of any formed units of foreign forces with the possible exception of those zones controlled by the Khmer Rouge, to which UNTAC had no access.

Yeltsin seeks to restore faith of S Korean investors

John Burton on why Russia is anxious to revive economic co-operation while Seoul-based companies remain cautious

MR BORIS YELTSIN, the Russian president, is hoping to revive South Korean investment confidence in his country during his visit to Seoul, which begins today.

In spite of Russia's potential as a source of both raw materials and high-technology, most Korean companies are cautious about its prospects.

Total Korean investment in the CIS, mostly in Russia, has amounted to $27m since 1989, when the two countries established trade offices. This is only about a tenth of the investment Korean companies have made during the same period in China, another recently opened market for Korea.

Moreover, Korean investment in the CIS has declined from its peak in 1990, when it reached $16.4m. This included $16m invested by Hyundai in a timber and furniture joint venture in the Russian Far East, the single largest Korean investment to date.

Investment dropped to $2.9m in 1991. Although it has risen to $7.3m during the first 10 months of 1992, only $306,000 has been committed since June. Korean companies have been deterred by growing political turmoil and foreign exchange problems.

Hyundai, Korea's largest conglomerate, complains that new export taxes and foreign exchange controls are threatening the future of its timber project, in the port of Svetlaya.

Moreover, investment confidence was weakened after Russia was unable to meet interest payments on a $1.5bn loan and trade credit package granted in 1990, when the two countries established diplomatic ties. The debt problem forced Korea to withhold a second promised loan tranche of $1.5bn.

An apparent solution was reached last week when Russia agreed to pay the overdue interest in cash and kind. Resumption of Korean credits will enable Russia to buy more Korean goods and increase bilateral trade, which amounted to $1.2bn in 1991 with Korea enjoying a slight trade surplus of $48m.

Some of the credits have been used to purchase Korean production facilities and components. But the granting of further loans has become a political issue in this year's presidential election. "The government is rushing to promote economic co-operation with Russia, which is unprepared to utilise Korean economic aid," Mr Kim Dae-jung, the presidential candidate of the main opposition Democratic Party, said yesterday.

Korean-CIS trade

Year	Amount	Surplus favours	Surplus $m
1989	$559m	Russia	183
1990	$889m	Korea	149
1991	$1.2bn	Korea	48
1992*	$763m	Russia	84

* Jan-Sept
Source: Korean Foreign Trade Association

Korean investment in CIS

Year	Amount	No of projects
1989	$480,000	2
1990	$16.45m	3
1991	$2.9m	9
1992*	$7.3m	12

* Jan-Oct
Source Bank of Korea

Nonetheless, Korean investment in Russia should grow next year. Daewoo is planning to invest $20m in a bus assembly plant in Khabarovsk and $10m in a St Petersburg consumer electronics factory.

Kohap, a textile group, is developing plans with local Russian officials to establish an industrial complex for Korean companies in the port of Nakhodka.

Mr Yeltsin's visit will include the formal signing of a contract for a feasibility study of a proposed $20bn project to develop natural gas reserves in the Russian republic of Yakut-Sakha. The study, will involve a consortium of Korean companies, including state-owned Korea Petroleum Development, Daewoo, Yukong Oil, Samsung and Lucky-Goldstar.

Of more immediate impact will be Korean assistance in converting Russian military factories to civilian use in return for technology transfers, in such areas as aerospace, machinery, electronics and telecommunications.

Both Daewoo and Samsung have already imported Russian aerospace technology. Daewoo Heavy Industries is building, from designs provided by Kamov Helicopter Scientific & Technology, pilotless helicopters that will spray agricultural pesticides.

Russia also hopes to sell military equipment to South Korea with this week's signing of a military co-operation treaty. However, Seoul is expected to purchase only a limited quantity of weapons to increase understanding of the Soviet-made arms that North Korea is using.

Double taxation and customs clearance agreements will also be concluded during Mr Yeltsin's visit.

China pushes market reforms

China is pushing through a package of reforms for its state-owned commercial companies which will allow them to introduce shareholding, determine their own marketing strategies and deal in foreign trade, Reuter reports from Beijing.

He Jihai, vice minister of commerce, told the official China Daily the reform measures would boost the state commercial sector, which has lagged far behind private entrepreneurs in exploiting China's emerging consumer market.

Under the reforms, state commercial companies will be allowed to determine their own product mix, introduce shareholding systems to bring in new capital and lease subsidiary operations to other companies.

Wanted: party mechanic to lead Republicans

By George Graham in Lake Geneva, Wisconsin

ONE of the first tasks facing the Republican party after its defeat in the presidential election this month is the choice of a new party chairman.

Candidates flocked to Wisconsin this week to impress the Republican governors who will have an influential voice in the selection.

Some irritated the current party chairman, Mr Rich Bond, by starting to campaign for the post before the election. Practice has it that a new party chairman is appointed after a presidential campaign, either by the president himself, or if he is defeated, by the party.

Senator Robert Dole, the minority leader in the Senate, and many Republican governors believe they are their party's best spokesmen for the four years ahead; they want a mechanic to head the party organisation – and preferably one who will not be working on the side for one of the party's presidential hopefuls.

"What we ought to be working on is the next election and not someone's campaign in 1996, so I want someone who is willing to do that and doesn't want to profit from the job," said Senator Dole.

Governor Kirk Fordice of Mississippi added: "I think we need somebody who is not influenced by the Washington syndrome, who is literally from outside the Beltway. We don't need somebody who is going to use this job to further his career in the lobbying business."

Among those working the hallways at the governors' meeting was Mr Charles Black, who helped lead President Bush's campaign. This may not help him, however, and to many leaders he is too much of a Washington lobbyist.

Former Governor Pierre Du Pont of Delaware wants to turn the party organisation from a campaign apparatus into a policy workshop, but he may be too much of an ideologue.

More of a mechanic is Mr Spencer Abraham, who is credited with building a strong grassroots party organisation in Michigan and who now runs the Republican congressional campaign committee. He is not necessarily helped, however, by Vice-President Dan Quayle's campaign on his behalf. Similarly, Ms Lynn Martin, the labour secretary, may not be helped by Mr Bond's backing.

Mr Haley Barbour, a former Mississippi state party director, argues for a "nuts and bolts" chairman who will direct the party's resources to the state and local level. Like Mr Black, however, he may be tarred with the "lobbyist" brush.

Other candidates have yet to emerge. "Just hold off for a while," Senator Dole urged his party colleagues. "We've got plenty of time."

Bush's defeat gives governors free rein

MANY of the country's 23 Republican governors gathered this week at a lakeside resort in southern Wisconsin appear in a sense happier since the defeat of their candidate, President George Bush, writes George Graham.

It is as if the party's removal from power has offered them an opportunity to speak up for a message they feel their party has not enunciated well: what the party really stands for.

"We think it's going to be our responsibility as Republican governors to rebuild the party," said Governor Tommy Thompson of Wisconsin, chairman of the Republican Governors' Association. Many Republicans active at the state level fear that their national leaders, during 12 years in the White House, have strayed from the straight and narrow, lured by entrenched Washington interests or diverted from hands-on government into arid discussions.

But in the states, Republican governors – and, many of them will admit, Democratic governors – have shown discipline in grappling with the revenue shortfalls that beset 35 states last fiscal year. Those such as Governor Thompson, Governor John Engler in Michigan and Governor Carroll Campbell in South Carolina have also shown innovation in reforms of welfare, health and educational systems.

"Now that we do not have either house in Congress nor the executive branch, that's where the action is going to take place, where the voices are going to be," said Governor Thompson. "Our programmes are going to be tested not at the federal level but at the state level. The only parts of the country where Republicans are setting the agenda are going to be those states where we have Republican governors," said Senator Phil Gramm of Texas.

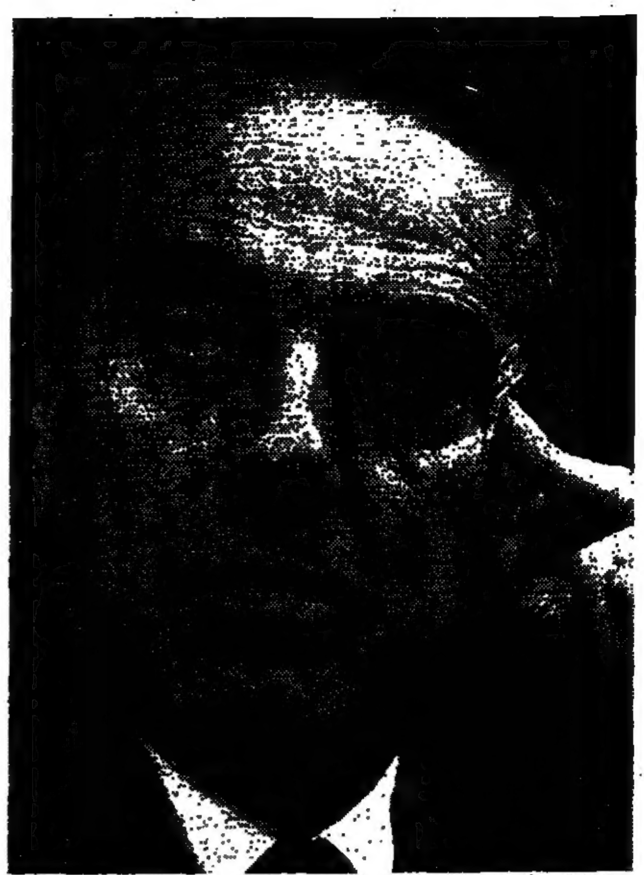
The most gaping of the post-election wounds is the division over where the party should stand on social issues, especially abortion.

Speaker after speaker in Wisconsin called for a return to the vision of the party as a "big tent", capable of enfolding a variety of opinions.

"The Republican party has been, and has got to get to the position of being, the big tent. I think we have to have differences of opinion on social questions if we are going to be a majority party," said Governor Thompson, adding that he believes the whole party platform will have to be changed.

"We've got to be the party of the big tent. Everybody says it. I believe it and I hope I've practised it," added Senator Robert Dole, Senate minority leader. The idea that Republicans should concentrate on the economic issues that unite them, rather than on the social issues that divide them, finds wide party support.

However, the Republicans still have a lot of work to do before they have pitched a tent as broad as their governors would like.



Senator Robert Dole: says there is no hurry to choose the right person as chairman of the Republican party, described as a 'big tent' capable of enfolding a variety of opinions

Foreign property investors calm over tax fears

By Nancy Dunne in Washington

MOST foreign investors in American property are likely to increase or at least maintain their current investment levels, unless there are unfavourable changes to the US tax code this year, according to the Association of Foreign Investors in US Real Estate.

Mr James Fetgatter, executive director of the association, said that foreign investors have been alarmed by "the talk" in the presidential campaign, during which President-elect Bill Clinton said he would raise new revenues by getting foreign businesses to pay "their fair share".

A survey of the association's 90 or so institutional members found one third planning to raise their investment levels if the tax climate remains favourable. About one third plan to retain current investment levels, and the remainder plan to reduce their levels of investment.

The association's members ranked Washington DC as the most likely target of investment. "The perception is that the city is a stable, solid market due to a captive audience of many law firms, lobbyists, government agencies, diplomats and so on with a steady demand for office space, housing and retail stores," Mr Fetgatter said.

On the list of cities most likely to draw foreign property investors, Atlanta ranked second, followed by San Francisco and Seattle. New York City was a distant fifth.

Half of those surveyed said the property market in New York had worsened over the past year.

Overall, foreign investors have not much changed their opinions of US property investment in the last year, although 70 per cent said they viewed the outlook for US property investment more negatively than five years ago.

Mr Fetgatter said foreign investors were about evenly divided regarding their 1993 investment plans because of the mixed signals about the future of the US economy.

Foreign investors became a significant factor in the US market in the early 1980s. Investment accelerated in the mid-1980s and levelled off by 1988.

According to the US Commerce Department, foreign investment in US real estate now totals about $35bn.

Members of the Association of Foreign Investors in US Real Estate include : Deutsche Bank Capital Corporation, Olympia and York, Banque Indosuez, Mitsubishi Estate, Fuji Bank, Sumitomo Life Realty, the Shell Pension Fund and Philips Pensions Fund.

$25bn will end crisis over thrifts

MR ALBERT CASEY, chief executive of the Resolution Trust Corporation, yesterday said he could complete the overhaul of the US savings and loan, or thrifts, industry with just $25bn in new funding, Reuter reports from Washington.

This is the lowest estimate to date of the funds needed to complete the overhaul, on which the RTC has so far spent $84bn.

The RTC, set up in 1989, was scheduled to close in 1996, but its activities have recently been slowed by the failure of Congress to provide new funds. It has been without new funds since April 1, after the last Congress failed to vote an additional $43bn.

Mr Casey said that if he received the new funding quickly he could virtually finish the process of closing down failed institutions and paying off insured depositors by the end of 1993.

He said that by the end of next year there would only be $15bn-$20bn left in hard-to-sell assets, which could be managed by existing government agencies. "We could sunset the whole thing three years ahead of schedule," he said.

Mr Casey expects his agency will receive another 50 failed thrifts by the end of next September, the deadline for failed institutions to be handled by the RTC.

Argentina acts to stabilise the peso

By John Barham in Buenos Aires

ARGENTINA plans to take currency convertibility a step further in response to last week's speculation, which drove the peso below parity with the US dollar, by allowing banks and individuals to broaden hard currency holdings.

The central bank president, Mr Roque Fernandez, announced on Monday evening that individuals could open dollar current accounts and banks could meet central bank reserve requirements in pesos or dollars. However, wages and taxes would still be paid in pesos.

The hope is that this will strengthen confidence in the peso and encourage a decline in interest rates – which reached 100 per cent a year, in dollar terms, on the interbank market on Monday. Yesterday, interest rates settled down to 35-40 per cent, while share prices climbed 7 per cent and the peso rose above its maximum official rate of one peso to the dollar.

The government formally pegged the peso to the dollar in April 1991, when it made the currency fully convertible and required central bank reserves to equal the money supply. However, confidence in the peso is ebbing, as inflation continues rising at about 20 per cent a year, making the currency increasingly overvalued.

Observers say Mr Fernandez's proposal – originally floated last year – is largely psychological. The US dollar is already a de facto parallel currency. One US analyst said: "A lot of inflation comes from expectations that there will eventually be a devaluation. If they were really serious, they would abolish the peso. By keeping it, they are keeping open the option to print money or devalue."

However, bankers commented that other factors such as seasonally tight liquidity, the likelihood that privatisations due for December will be less lucrative than expected, and continuing political risk, will keep interest rates high.

Police to probe Clark's role in arms case

By John Mason and Ralph Atkins

A POLICE inquiry was ordered yesterday into evidence given by Mr Alan Clark, the former trade minister, about his role in *Matrix Churchill affair* as the prime minister vigorously dismissed charges that he and cabinet colleagues repeatedly misled parliament over arms-related sales to Iraq.

Mr John Major told MPs any suggestions of ministers having misled Parliament over the export of defence related goods to Iraq, "has no basis whatsoever in fact."

A short statement from the Crown Prosecution Service said the Metropolitan Police had been asked to carry out inquiries relating to inconsistencies in the evidence given by Mr Clark to Customs investigators and later at the trial of three businessmen accused of breaching arms embargoes on Iraq.

Mr Clark's testimony at the Old Bailey 10 days ago that the government approved the sale of sophisticated machinery which could be used to make weapons, along with evidence contained in 500 pages of government documents released to the court, led to the acquittal of the three former Matrix Churchill directors.

The collapse of the case against the directors of Iraqi-owned machine-tools manufacturer has raised a storm of controversy and dominated the political agenda forcing ministers, including Mr Major, onto the defensive.

The move against Mr Clark, announced yesterday by the Crown Prosecution Service, follows the passing of papers about Mr Clark's evidence by Customs and Excise to the CPS last week. Mr Clark was yesterday refusing to comment on the CPS's decision to call in the police.

The inconsistencies in his evidence are between his initial witness statement to Customs investigators before the prosecution was brought and statements he made later from the witness box during the trial. Customs blamed these inconsistencies for its decision to abandon the controversial prosecution.

Customs have refused to release transcripts of Mr Clark's witness statement. The transcripts, however, are understood to repeat Mr Clark's earlier insistence that he did not encourage companies to breach export controls to Iraq.

This stance was apparently largely contradicted by Mr Clark under cross-examination. During the trial he agreed that he had indicated that companies applying to the Department of Trade and Industry for export licenses could stress the peaceful applications of "dual use" machine tools.

The advice not to mention the potential military use from applications was "our old friend economical... with the actualite," Mr Clark told the court – paraphrasing an expression "economical with the truth" made famous by Sir Robert Armstrong, former cabinet secretary, during the Spycatcher case in the mid-1980s.

Mr Clark also told the court he found the government guidelines on arms exports "tiresome and intrusive" and that the machine tools involved were of little concern since they were "pedestrian technology".

The decision to call in the police will concentrate attention further on the role played by Mr Clark in the affair rather than those of other ministers. Mr Major has already distanced himself from Mr Clark. At the despatch box in the Commons last week he said Mr Clark had assured him in 1990 that correct government procedures had not been breached.

Britain in brief

Vauxhall to cut output for first time

Vauxhall, the UK subsidiary of General Motors of the US, is being forced to cut its car output for the first time during the recession in the face of weakening demand from export markets.

It is planning to cut eight shifts at its assembly plant at Luton, Bedfordshire in January with the loss of 2,880 cars. Its plant at Ellesmere Port will not be affected by the cutback.

The company said some of its key export markets were reporting declining sales, forcing it to introduce short-time working. Around 4,200 hourly-paid production workers at the Luton plant, which produces the Vauxhall Cavalier-Opel Vectra, will be affected by the short-time working.

Italians win bridge contract

The steelwork contract for the privately financed £300m new toll bridge across the River Severn, between England and Wales, has been awarded to an Italian venture despite complaints it could threaten UK jobs. John Laing of the UK and GTM Entrepose of France said that they intended to award the £7m contract to Costruzione Cimolai Armando of Pordenone in northern Italy. The British Constructional Steelwork Association asked Mr Michael Heseltine, President of the Board of Trade, to intervene after it emerged Cimolai had submitted the lowest bid for the contract.

Truck sales rise by 5.3%

Sales of new commercial vehicles rose by 5.3 per cent in October to 15,465 confirming earlier signs in the summer of the beginning of a slow recovery in one of the sectors hit hardest by recession.

Sales have risen year-on-year in three of the last five months according to figures from the Society of Motor Manufacturers and Traders.

Campaign fails to get through

Opportunity 2,000, the business-led campaign to improve the position of women at work, has gained the backing of chief executives but is often failing to get through to lower levels of the workforce, according to new research.

The initiative, launched a year ago by Mr John Major, the prime minister, covers nearly a quarter of the UK workforce and involves 141 companies, most of them household names. The research found nearly 80 per cent of chief executives of participating companies had taken an active role in sponsoring the initiative but Line managers were often ill-informed, and fewer than half had specific targets for their sections of the business.

Revamp for 'Yellow Book'

The City's "Yellow Book" – virtually a bible for corporate financiers – is being revamped to make it easier for users. The Stock Exchange published a draft of a new rule book, to general approval from corporate financiers. The exchange spells out its intention to publicise what it considers breaches of the rules, and to censure company directors personally where they are at fault.

Businesses urge prompt reductions

By Andrew Baxter and Andrew Taylor

SMALL businesses gave widespread support yesterday to chancellor Norman Lamont's call to banks to pass on recent interest rate reductions fully and promptly to help them survive the recession.

While businesses were almost unanimous that small companies were having to wait too long for rate cuts, the chancellor's plea has also revived wider concerns about the banks' attitude to them.

For some businesses, it is inevitable that the banks will try to delay the good news for small companies. Their bigger clients have more bargaining power, and can shop around for loans in the Euromarkets or overseas.

For others, what one London-based company described as the banks' "unsupportive attitude to anything involving risk", is far more dangerous than a few weeks delay on reducing interest rates.

Not everyone agrees that the banks are playing unfairly. The Forum for Private Business, which represents more than 20,000 companies, says accusations that banks have failed to pass on interest rate cuts are false and distract attention from the real issue of improving bank services generally to small companies.

Mr Stan Mendham, the forum's founder said: "To cry wolf over allegations which we know cannot be substantiated would degrade our future task of ensuring that the banks play their role in ensuring a small business-led recovery."

The Confederation of British Industry said: "It is still unclear the extent to which banks have or have not passed on the benefits of lower interest rates.

"What is clear is that there is great dissatisfaction at the way in which banks levy their charges. It is not always apparent how banks arrive at the additional charges over base rates they make."

Borrowing costs lower in UK than rest of EC

FT writers find considerably higher interest rates in other member states

BORROWING rates in other EC states are considerably higher than in the UK.

France has among the highest real rates in Europe, with annual inflation at 2.4 per cent, as against a commercial bank base rate of 9.65 per cent. This compares to British real base rates of 3.2 per cent with underlying inflation at 3.8 per cent and actual base rates at 7 per cent.

The overdraft rate in France is on average 17 per cent, according to the Association Francaise des Banques (AFB), rising to 20 per cent for personal unsecured loans of less than FFr10,000. Business customers pay between 16 per cent for loans of less than two years, falling to 11.9 per cent for loans to be repaid over a longer period, says the AFB.

The rate for long term government bonds – for redemption in 10 years – is 8.6 per cent. The Bank of France's intervention rate, at which it does most of its lending to commercial banks, is 9.1 per cent. Commercial banks able to borrow at that rate should therefore make an operating margin of 6.9 per cent, on business loans of less than two years, before costs.

In Germany, where inflation is 3.7 per cent, the rate charged on overdrafts is about 14-15 per cent. For larger, secured loans, the rate is in between 14 per cent and 17 per cent.

Interest rates to business borrowers are set according to the individual circumstances since there is no comparable base rate in Germany as such. But very large companies could expect to borrow money at around 12 per cent.

The Bundesbank's benchmark rates are the internationally sensitive Lombard rate – which stands at 9.5 per cent – and the discount rate at 8.25 per cent. Short-term money market rates were 8.75 per cent yesterday.

In Italy, rates vary between banks. The Bank of Italy has made two cuts in the discount rate since the currency markets' turbulence and now stands at 13 per cent.

The commercial banks, under strong pressure from industry and the Bank of Italy, have recently reduced their prime rate to a band of between 15.5 per cent and 14.5 per cent for leading customers. The top rate, charged to ordinary customers, oscillates between 22.25 per cent to 21.25 per cent. Unsecured loans with be extended at the top rate. Overdraft rates are around 24 per cent, with business loans at about 17.5 per cent.

Bank margins are exceptionally high – up to 9 percentage points between the rate at which money is taken on deposit and lent and an average of 6 percentage points. This is because the banks are seeking to offset losses on the large portfolios of treasury bills whose value has declined as a result of the recent lira crisis.

Spain's base rate is currently 10 per cent while year-on-year inflation is running at 5.2 per cent. Overdraft rates are between 25 per cent and 30 per cent.

The 10-year bond (benchmark) rate is currently 12.42 per cent.

Rates to business vary enormously depending on a customers' circumstances. Generally, business borrowers' rates start from the Madrid interbank rate, currently at 13.6 per cent, plus anything between zero and 30 per cent

Money dealers change views on direction of UK base rates

By James Blitz

IN RECENT days, dealers in the sterling money market have started to change their views on the direction UK base rates are taking. Their decisions have significant implications for banks' balance sheets.

When the Bank of England signalled base rate cuts on September 22 and October 16, the market's expected more monetary easing before the end of the year. The rates for lending money in 1 month and 3 months time therefore fell below the prevailing level of base rates, sometimes by a full percentage point.

Since Friday's cut, however, money market rates have changed direction. The offered rates for 1-month and 3-month money rose yesterday to around 7⅛ per cent, above the base rate of 7 per cent. And dealers think Friday's rate cut may be the last for 1992.

The clearing banks were adamant yesterday that the higher cost of borrowing money in the wholesale market had no impact on lending rates to private customers and businesses.

The head of asset management at one big clearing bank said his bank's retail balance sheets were self-contained, and the higher cost of borrowing sterling could be met through wholesale market operations. "We have gone out of our way to increase our retail deposit base and reduce our reliance on money market funds."

But recent movements in wholesale market rates may affect bank balance sheets in other ways:

● The fall in money market rates reduces returns banks get from holding current account deposits. Many are non-interest bearing for the customer, and banks earn money by re-depositing cash in the wholesale market. But clearing bank officials said any potential losses will have been offset by fixed interest portfolios or the purchase of gilts.

● Although the market still assumes base rates will be cut to around 6 per cent, cash rates beyond that are pricing in a sharp rise in interest rates.

The rate for 1 year money was 5.75 per cent yesterday, but 5-year rates were 7.64 per cent, while 10-year rates were 8.57 per cent.

The rising yield curve may affect the rates at which banks offer fixed rate mortgages, which have been among the most popular products sold by the UK clearers this year.

● Recent volatility in the overnight rate of wholesale lending has concerned the clearing banks because it has encouraged a phenomenon called "round tripping" among UK corporates.

The overnight rate of lending has been as high as 100 per cent in the last month because of shortages of liquidity in the wholesale market. These shortages have partly been triggered by a belief that rates are trending downwards, making dealers unwilling to borrow cash from the Bank of England at prevailing prices.

BAe challenged over Saudi defence order

By Daniel Green

THE ROLE of British Aerospace (BAe) as the lead contractor in the £20bn Al-Yamamah arms contract with Saudi Arabia came under fire yesterday from the company's own sub-contractors.

Mr Peter Usher, chairman of Vosper Thorneycroft, the shipbuilder, said he wanted to bypass BAe and deal directly with Saudi Arabia over the construction of three mine hunting ships.

"We would like to see a naval Al-Yamamah. We think they could go ahead with just the ships part of the deal," he said.

Westland, the helicopter supplier, said it, too, "could not rule out change" in the structure of the contractors in the deal, although the possibility "had not been discussed overtly with BAe".

The row comes when BAe's position as one of the world's biggest defence contractors is under pressure. With UK defence spending falling as a result of the recession, Saudi Arabia is the company's biggest export market.

BAe responded that sub-contractors would have to lobby for a change in the terms of the contract through the UK government. Al-Yamamah is a contract between the UK and Saudi governments.

The cracks in the alliance of contractors have arisen partly because Saudi Arabia has not yet decided when to go ahead with the the second phase of the deal. The Saudi government last month said it was still committed to the deal but gave no new clues on timing.

In the second phase, BAe would probably supply 48 additional Tornado bombers, 60 Hawk aircraft, 88 helicopters and three mine hunting ships.

Westland could be subcontracted to supply the helicopters and Vosper the ships.

Mr Usher said Vosper already had "instructions to proceed" from Saudi Arabia for the three mine hunters. "This is very close to saying they are ordering. It opens the way for the order." Vosper has already supplied three mine hunters to Saudi Arabia as part of the first phase of Al-Yamamah.

But this was only enough to patrol one of the country's two coastlines, said Mr Usher.

The delay in the Saudi order, and in another from the MoD, for minehunters has left Vosper without any work for its reinforced plastic facilities.

It has had to shed 200 jobs, of which 50 were lost this month, as a consequence. It employs about 1,900 people.

Each ship is understood to cost more than £30m. Vosper is also trying to win an Australian minehunter order and said the recent devaluation of the pound has helped its position versus mainly French and German competitors.

Babcock Thorn, the consortium behind Rosyth dockyard, has called for a single management team to control the Scottish site and the rival naval yard at Devonport, south-west England. Citing a study by consultants on the yards, Babcock said Rosyth should handle submarine work while Devonport maintains surface warships. Mr Malcolm Rifkind, defence secretary, is expected to announce next month his decision on which yard will refit Trident submarines. If Rosyth loses the Trident contract to Devonport it is likely to close with the loss of 4,000 jobs.

MoD seeks cost savings

By Daniel Green

THE MINISTRY of Defence is planning to save between £250m and £300m over the next four years by placing contracts in the private sector.

Mr Jonathan Aitken, the defence procurement minister, said yesterday the intended savings would come from improved efficiency as the companies bid for work now conducted in-house by the MoD. Without the contracting out, the MoD would have spent £1.2bn on these areas, which include vehicle maintenance and accounting.

The scheme is about 10 times the size of previous plans to put out contracts to the private sector, a process called "market testing" by the government. The bidding process has already started for the overhaul of armoured vehicles, work is carried out by 600 civil servants 18 Base Workshop at Bovington, south west England.

Other areas earmarked for market testing include payroll, helicopter maintenance, computer and workshop management and ship repairs.

"If it goes well, there are good prospects in the medium and long term for more contracting out," said Mr Aitken, who presented the scheme to more than 600 industry and union executives in Birmingham. Mr Aitken said the private sector personnel who won contracts were likely to be at managers rather than workers.

He said foreign companies might be excluded by UK and European Community rules on defence related contracts.

Companies that might benefit from contracting out include FR Group and Hunting, which run airfields for the RAF, Vickers and GKN which made many of the armoured vehicles used by the army and British Aerospace, a contractor of a range of services to the Saudi Arabian Airforce.

The MoD's previous efforts at market testing were severely criticised in July by the National Audit Office, the government's spending watchdog.

It said, among other things, that the MoD failed to hit targets for the amount of work contracted out and failed to keep adequate records of the savings made.

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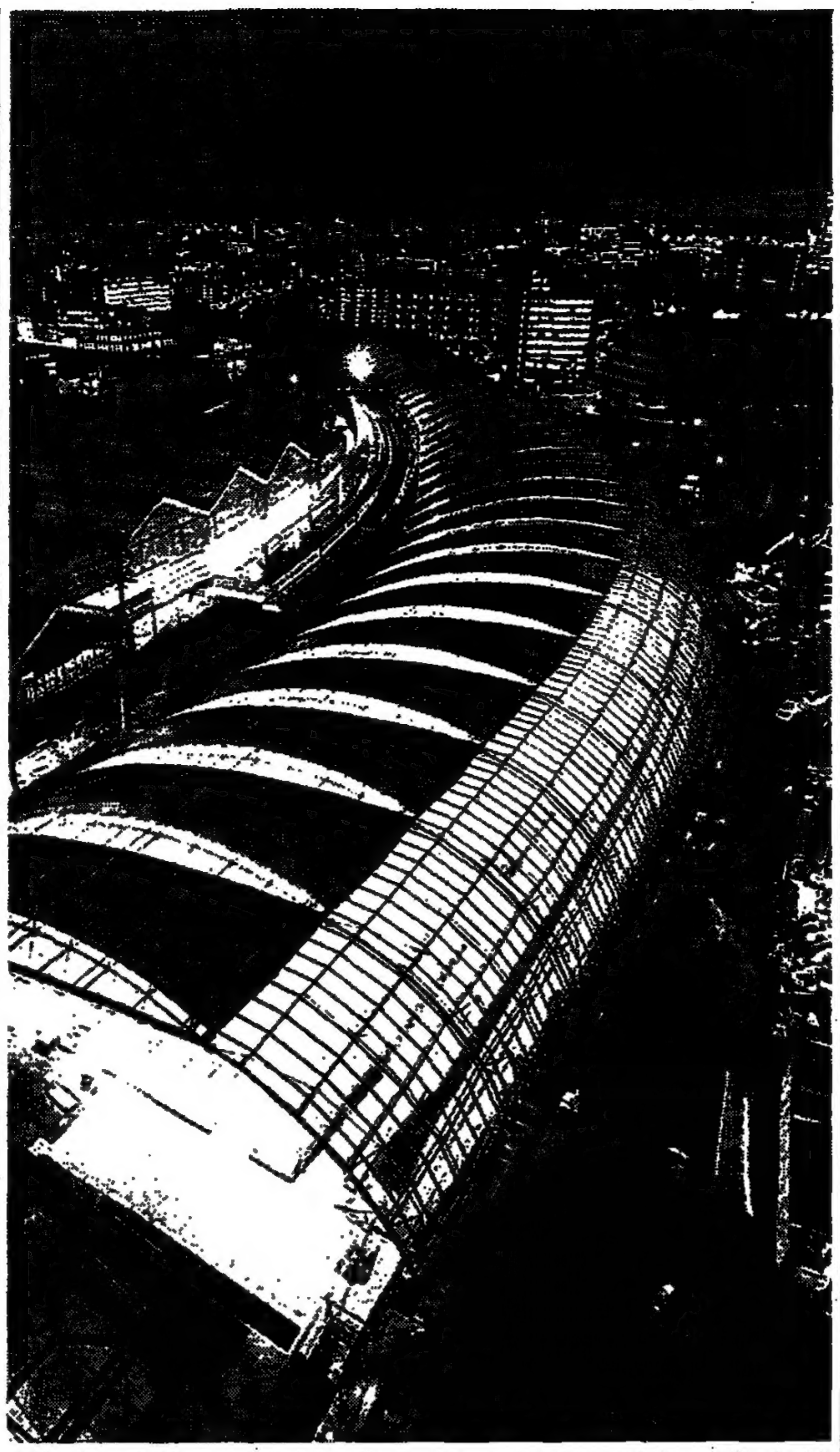


Light at the end of the tunnel: the international rail terminal at Waterloo station was illuminated last night as contractors worked to complete the £130m project, due to open in May 1993. It will be the starting point for Channel tunnel services before a new link is built to King's Cross station

Rail union votes for Tube strike

By Catherine Milton and Richard Tomkins

LONDON commuters could face chaos on the capital's Tube network after members of the RMT rail union yesterday voted 3-1 to take indefinite strike action from Monday night.

The vote, by 55 per cent of the union's 11,000 members on London Underground, is a protest at the most radical plan to shake up pay and conditions on London Underground in 40 years.

London Underground, however, has made it clear it is not prepared to yield on the reforms and claims to have the full support of Mr John MacGregor, transport secretary, for a showdown with the unions.

It also says it has enough staff willing to work to run a strike-breaking service. Some passengers will be able to travel free as there are unlikely to be enough staff to check tickets.

Earlier this week Mr Ian Arthurson, London Underground's director of passenger services, wrote to the leaders of all three rail unions and their members warning that strikers would risk dismissal by their action.

Mr Jimmy Knapp, RMT general secretary, said: "The only way to deal with bullies is to stand up to them and that is what RMT members will do."

Some union officials privately admit that their members may be intimidated by such tactics and seem less confident of victory than in 1989, when the Underground suffered 17 one-day strikes.

Other union officials say they hope to be able to follow the coal unions in winning public support for a strike against redundancies. The union says the plan will cut 5,000 of the 21,000 Tube jobs and reduce pay for 30 per cent of staff, although earnings will be protected for three years.

The RMT vote follows decisions by the TSSA white-collar rail union and the Aslef train drivers' union to ballot their roughly 3,000 members on strike action and action short of strikes. The unions say TSSA and Aslef members have overwhelmingly rejected London Underground's plan in internal consultations.

London Underground said it was "disappointed" by the RMT result but said only 40 per cent of union members supported the vote. The company said: "On past performance that means that would have difficulty sustaining a strike. We believe the majority of staff see the benefits that are on offer to them. We would be very surprised if there were to throw these benefits over board in a futile strike."

Trade figures face delay

By Andrew Jack

PUBLICATION OF official statistics on trade between companies in EC member states will be substantially delayed as a result of the introduction of single European market from next January.

Intra-EC trade figures – an essential component of the UK balance of payments statistics – will be unavailable at least until next June while British businesses adjust to a new system of statistical collection called Intrastat.

Even if the new system is successfully implemented by the end of next year, monthly EC trade statistics will continue to be produced at best two weeks later than at present, according to senior Customs officials.

Intrastat is being created to provide the trade statistics previously compiled from documents handed by exports and importers to customs officials at national borders.

From the beginning of next year, these border controls will be abolished and the government will need a new way to collect information.

Companies with imports or exports to EC countries of more than £135,000 a year will complete monthly Intrastat returns, which are far more concise than current border documents. That will cover about 30,000 companies.

Diane Summers assesses what Opportunity 2000's first year has achieved

Great expectations

Cynicism about Opportunity 2000, the business-led initiative launched a year ago to improve the position of women at work in the UK, is bound to be widespread among the quarter of the workforce now covered by the campaign.

The hype surrounding the launch, fronted by John Major, the prime minister, inevitably raised expectations which will have been particularly hard to meet during the past year of recession.

Short of sacking men wholesale and giving their jobs to women, sluggish staff turnover rates will have made impossible any real attack on imbalances between men and women in, for example, management grades. Even in the best of times, policies need time to work through – which is why those companies brave enough to have announced numerical targets for the appointment and promotion of women are generally setting their sights at least five years ahead.

However, research* published yesterday to coincide with the first anniversary of the programme also suggests that Opportunity 2000 should not be dismissed as a publicity stunt which is having no practical effect on the day-to-day lives of women at work.

A team drawn from Business in the Community, the business-led umbrella organisation responsible for Opportunity 2000, and Ashridge management college, conducted interviews during the summer with chief executives, board members and line managers from the original 60 or so companies which joined the campaign. The researchers also collected data on the practical steps now being taken by many companies to improve their attractiveness as employers of women. These include new policies and practices on:

● **Recruitment.** For example, Kingfisher now instructs recruitment consultants to include female candidates on shortlists wherever possible. The Co-operative Bank has trained managers in "competency-based" recruitment interviewing, designed to eliminate bias against female candidates.

● **Assessment and appraisal.** It has often been claimed that traditional appraisal systems may discriminate against women. Legal & General has tried to be more systematic and is developing "gender-neutral" techniques. Coopers & Lybrand Deloitte's appraisals cover regular core skills but also include sensitivity to the needs of clients and the ability to build relationships.

● **Working arrangements.** Almost all participating organisations offer flexible working arrangements to at least some staff. These include job sharing, working from home, part-time working and temporary contracts. The Bank of England is conducting an audit of all jobs to identify where flexibility is possible.

● **Pay and conditions.** Part-time workers, overwhelmingly female, have historically found themselves in receipt of less than pro rata pay and subject to conditions inferior to those of their full-time colleagues. More than three-quarters of Opportunity 2000 employers now provide common terms and conditions for all their staff; many have also taken steps to review their pay and check that equal reward is offered for work of equal value. Some flexibility in pensions is also available in nearly half of the companies.

● **Family care.** Most organisations are offering maternity arrangements well beyond the statutory minimum for all staff and half have career-break schemes for childcare. "Keep in touch" schemes and re-entry programmes are increasingly on offer for women taking and returning from maternity leave; some companies are offering financial incentives to women to return after having children, or are undertaking to continue paying benefits during the period of leave.

● **Help with childcare.** Workplace nurseries, vouchers and holiday play schemes are now run by a number of participating companies, including Glaxo, W.H. Smith, Allied Dunbar and Boots the Chemist.

● **Education and training.** It is often claimed that women restrict their own promotion prospects by choosing to enter the "wrong" disciplines – for example, pursuing careers in support functions like personnel, rather than "core" activities, such as manufacturing. Some companies are now attempting to overcome these barriers. Lucas Industries, for example, is launching a new programme called "engineering for non-engineers", which, it is planned, will help those in non-functional areas to cross the divide.

Single-sex training has been found to be particularly effective in building confidence and enabling women to develop their own style. Over the past year IBM has doubled the number of women it has put through training courses.

Commitment to Opportunity 2000 among chief executives and board members has clearly driven many of these practical improvements. However, there are worrying signs that messages have often failed to filter down the line: following the first year's review, strengthening communications and increasing line-manager involvement have been identified as the areas most in need of attention.

Line managers interviewed were often not well enough informed about Opportunity 2000 to make a contribution. Less than half had specific targets for their departments and some appeared to be unaware that their organisations' declared equality goals had direct implications for them.

A recent survey by the Institute of Management appeared to show that women themselves felt the continued existence of the "old boys' network" was a far greater obstacle to their advancement at work than, for example, a lack of childcare or insufficient opportunities for flexible working.

If prejudice is to be eliminated at all levels of an organisation, and cynicism about Opportunity 2000 is to be swept away, line managers will need to have been drawn more closely into the initiative by the next annual review.

**"Opportunity 2000, review of the first year. From Opportunity 2000 campaign office, Business in the Community, 5 Cleveland Place, London SW1Y 6JJ. £12.50*

How campaign companies are changing policies to suit women workers

Work arrangements	Available now to all staff (%)	Available to some staff (%)
Flexible hours	36	56
Consider requests to increase flexibility	55	28
Part-time work	40	53
School-term contracts	18	41
Homeworking	22	51
Job sharing	31	41
Pay and conditions		
Common terms and conditions for all staff	78	2
Checks on equal pay for work of equal value	47	8
Flexible pensions	47	14

Training & education	Available now to all staff (%)	Available to some staff (%)
Training for non-traditional work	14	31
Mentoring	14	57
Women only training	16	39
Dealing with sexual harassment	12	28
Leave		
Maternity arrangements *beyond statutory minimum*	62	20
Paternity leave	53	20
Parental leave	39	8
Career breaks	45	26
Leave for care of elderly/disabled	45	14

Help with family care	Available now to all staff (%)	Available to some staff (%)
Work-place nursery	6	29
Places at community nursery	6	22
Childcare vouchers/ allowances	4	8
After school care	2	14
Encouragement to return to work		
In-touch schemes while on career break	47	22
Training while on career break	31	22
Re-entry training programmes	20	14
Continuation of benefits during career break	16	12
Financial incentives to return to work	7	19

Case study – Rank Xerox (UK)

Frontal attack mounted on macho military style

The company has suffered from what the Opportunity 2000 team describes as a military management style, resulting in an overwhelmingly macho culture – "white, male, young and boisterous".

The UK sales, marketing and support subsidiary of the international office equipment group employs nearly 5,000 people, 30 per cent of whom are women. Its aim is to increase the number of women managers to 25 per cent by 1995 from the current 15 per cent.

Each year the board announces its highest business priorities – known within the company as the "vital few" and equal opportunities have been accorded this status.

An intensive programme of workshops has involved all employees, starting with the managers. Viki Ford, Opportunity 2000 manager at Rank Xerox, says that employee involvement has been fundamental to the long-term programme. Discussions identified stereotyped ideas of "men's jobs" and "women's jobs" as a barrier to promotion.

Viki Ford: employee involvement

Case study – Health Service

Big operation to improve the lot of women workers

The NHS has come under fire from, among others, the Equal Opportunities Commission, for being an organisation that is overwhelmingly staffed by women but run by men.

Piecemeal measures had produced few results. Nearly 80 per cent of the NHS's 1m workers are female, making it the largest employer of women in Europe. By the end of 1994 the aim is to increase the number of women in general management posts to 30 per cent, from 18 per cent in 1991.

The intention is to push up the proportion of women who are members of health authorities and trusts from 29 per cent in 1991 to 35 per cent by 1994; it is also hoped to increase the percentage of female consultants by 10 per cent each year.

A national register of women in senior management posts is being set up and a career development manager will be responsible for providing details of suitable female candidates for top managerial vacancies.

NHS: staffed by women, run by men

Bridging the huge east-west divide

Managers in the formerly communist countries of eastern Europe accuse westerners imported to teach them how to be capitalists of being aggressive and insensitive to local culture.

This emerges from a study of 300 local and western managers working in Hungary, Poland and Czechoslovakia, published today by GKR/Neumann, the executive search company.

The study concludes that while the joint ventures have created opportunities for western and eastern managers to work together, "culture gaps" between executives are delaying the transfer of expertise. While local managers have a theoretical grasp of, for example, pricing policy, practical implementation is slow and shot with temporary setbacks.

The two groups blame each other for the stumbling progress. Local managers want greater freedom to operate the new market mechanisms. Westerners say their eastern colleagues are averse to risk, responsibility and decision-making.

Local managers admire the professionalism, qualifications and confidence of their western colleagues. One said: "My western colleagues do not know the meaning of the word impossible."

However, in Hungary, almost 80 per cent objected to western managers and in Czechoslovakia and Poland, about 75 per cent said westerners were at best "accepted rather than rejected".

Western managers who initially dismissed cultural differences as part of a discredited communist past are now incorporating some into business strategy. Local managers are less likely to emphasise local limitations.

Westerners have some advice for those expecting transfers to eastern Europe: "In Hungary it is very difficult to keep anything secret. In Poland it is important to become an insider quickly while in Czechoslovakia managers must give and ask for feedback."

Contact: Trevor Morris, The Quentin Bell Organisation, 22 Endell Street, Covent Garden, London WC2H 9AD.

Catherine Milton

BUSINESS AND THE ENVIRONMENT

Ian Rodger reports on the recent opening of the world's first household battery recycling plant

Charged up in the Alps

When you switch on a torch, portable radio or alarm clock, you don't think twice about what makes it work until the power runs out. But the humble batteries that help modern life run so smoothly also pose a serious problem in this age of consumer plenty – they are notoriously hard to get rid of.

Not only do dry batteries contain nasty mixtures of metals – among them zinc, iron, mercury, cadmium, manganese, lead, copper and aluminium – but these are also sealed in packages that make the various elements difficult to separate and capture.

Thus the disposal or recycling of batteries is a tough environmental challenge. Until now, there has been almost no organised reprocessing of batteries. In some places, collection and disposal take place, but satisfactory disposal sites are difficult to find. One hazard is that chemical reactions continue in old batteries, especially when subjected to the weather, and mercury and other elements escape into the soil.

It comes as little surprise that the environmentally conscious Swiss are among the first to insist that a more ecologically sound method be found for dealing with this increasingly acute problem. Using a Japanese-developed method, they have come up with the world's first commercial-scale facility for recycling old household batteries, with plans to market the process throughout Europe.

A few weeks ago, this advanced plant, capable of processing almost all types of used dry batteries, was started up in a small village at the foot of the Bernese Alps. The plant recovers most of the metals in marketable form and treats the waste liquids and gases. Among common battery types, only those with lithium cannot be processed.

In a country notorious for its lengthy planning permission process, Bern managed to push through approval for the recycling plant in only six months

The genesis of the plant was a decree passed by the Swiss government in 1986, classifying dry batteries as special waste for which there were no suitable disposal sites in Switzerland. Another decree obliged retailers, starting in 1989, to take back used batteries.

Immediately Migros, the aggressive and environmentally-aware Swiss co-operative retail group, asked a group of young engineers at the Eidgenössische Technische Hochschule (federal technology college) in Zurich to search for an ecologically sound disposal and recycling process.

Roger Burri, one of the engineers, saw a couple of papers in research journals outlining the efforts of Sumitomo Heavy Industries (SHI) to develop a furnace that would separate the metals in used batteries. A visit to Japan was arranged in 1988, and the group quickly decided that the Sumitomo process, then on display in the form of a 500-tonne-per-year pilot plant, was the route to take.

Its basis is an induction furnace that operates rather like an iron-making blast furnace – at very high temperature and continuously.

First, however, the batteries pass through a shaft furnace where the organic components are pyrolised (decomposed by heat) and most of the mercury evaporates. The waste gases are then burnt completely in an incinerator at 1,000-1,200 deg C. Solid particles of zinc oxide, iron oxide and carbon are washed out of the hot gas, which is then cooled, and the mercury condensed. Mercury is also distilled out of the wash water.

Residue from the burnt batteries then drops into the induction furnace where the oxide compounds of zinc, iron and manganese are melted at temperatures between 1,450-1,500 deg C and reduced to their metallic forms.

Carbon is added to that already present in some battery electrodes to act as the reduction agent. Metallic vapour is drawn off to a zinc condenser, and the remaining metals, mainly ferro-manganese, and an inert glass-like slag are tapped continuously.

In 1989, a joint stock company, Batrec, was formed to build and operate a plant in Switzerland based on this process, and employing SHI as the supplier. The plant would be a straight scale-up from the pilot plant, with the capacity to process 2,000 tonnes of used batteries per year, about half of Switzerland's total consumption.

The project received wide support across Switzerland. Migros is the main private sector shareholder, but other retailers and wholesalers are also involved. From the public sector, the federal government, eight cantonal governments, the city of Zurich and the principality of Liechtenstein have all subscribed for shares, and some have also provided grants.

The federal government provided the site for the plant, on some vacant land in a run-down municipality, which was manufacturing complex near the lakeside town of Thun. In a country notorious for its lengthy planning permission process, Bern managed to push through approval for the plant in only six months.

The final elements in the equation were the establishment of the supply and economic bases for the plant. The Swiss government imposed an export ban on used batteries from the beginning of 1991, and a national battery collection organisation was set up later in the year. At the moment, the return rate is about 54 per cent, according to Migros.

Starting in October 1991, all manufacturers and importers of batteries in Switzerland agreed to add 10 per cent to their retail prices to cover the costs of processing and recycling. The funds thus collected are turned over to Batrec at the rate of SFr 4,000 (£1,800) per tonne of used batteries consumed, the figure the company needs to make what it considers a satisfactory return.

The Batrec process is not cheap. The cost of the total project was SFr35m, of which the plant accounted for SFr25m. Energy consumption is about 3,500 kilowatt hours per tonne. "We know it is too expensive, but we want to investigate the whole process and then work on making an economical production system," says Atsushi Naitoh, executive vice-president of SHI.

Burri, now president of Batrec, believes that the ideal size, in terms of economics and the efficiency of the process, would be about 10,000 tonnes a year. At the moment, he adds, "we have a toy here".

He also points out that a large portion of the construction cost was attributable to Switzerland's very severe standards on emission controls. Complete water and air treatment equipment has been installed. Even dioxins, a sensitive subject in Switzerland since the 1986 leakage of chemicals into the Rhine, are destroyed.

Burri says the main problems encountered in operation so far have to do with balancing the charge in the furnace. For example, if the pressure in the shaft furnace is lower than in the melting furnace, the gases from the melting furnace flow up to the bottom of the shaft furnace. The zinc vapour in these gases can condense and plug the outlet of the melting furnace.

Conversely, if the pressure in the shaft furnace is higher, the gases flow from it through the melting furnace into the zinc condenser and oxidise the liquid zinc, creating worthless zinc dross.

Batrec believes it has solved the problem by installing a plug valve which enables it to decouple the gas streams of the two furnaces during the unstable start-up phase. Another problem is the need to stop the process frequently to reline the furnace. So far, the longest campaign has been four weeks, and relining takes about a week. Burri believes the average campaign can be raised to two months, an improvement that would raise the capacity of the plant significantly.

As a result of Batrec's experience, SHI has agreed to form a partnership to market the process in Europe. "At first we saw Batrec as just our first client, but we have changed our view. They are very good partners to promote this technology. We are quite confident of the hardware, but we do not have the operational knowhow," Naitoh says.

"Through Batrec we have had concrete inquiries from potential customers, but we are asking them to wait. We want to be 100 per cent sure of the gas balance in the furnace."

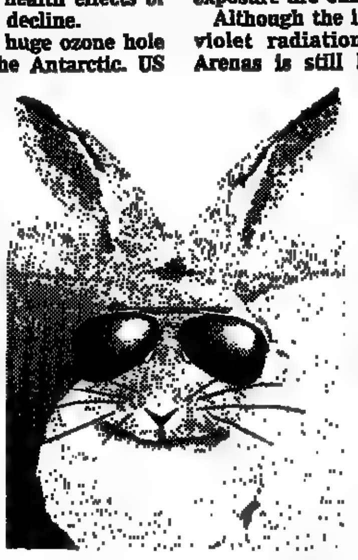
Fresh concern over ozone hole

By Leslie Crawford

When peasants in the remote south of Chile noticed that rabbits were going blind and their sheep and cattle were developing cataracts, they were witnessing the grim signs of one of today's biggest environmental concerns – the depletion of the earth's protective ozone layer.

Last year, the Financial Times first reported a sharp increase in skin burns, eye complaints and allergies in Punta Arenas, the town at the country's southern tip. Since then, the animals' plight has prompted keen interest among scientists. Thus southern Chile is about to become the world's first open-air laboratory for studying the health effects of the ozone layer's decline.

Each spring, a huge ozone hole opens up over the Antarctic. US satellite measurements show that the area of severe ozone depletion extends about 6m square kilometres beyond the borders of the frozen continent. The ozone loss, caused by a build-up of chlorofluorocarbons in the stratosphere, allows increased levels of cancer-causing ultraviolet radiation to reach the earth.



Scientists believe that exposure to ultraviolet-B rays can also damage the body's immune system, weakening people's resistance to disease. According to Bedrich Magas, a researcher at the University of Magallanes in Punta Arenas: "It's like getting Aids from the sky." The ozone hole now covers the southern tip of Latin America. Even as far north as Santiago, the capital' scientists have measured a five-fold increase in the intensity of radiation this austral spring.

In Punta Arenas, the increase has been even greater. A team of US scientists from Johns Hopkins University flew there earlier this month to study the impact of this invisible bombardment of ultraviolet rays on humans and animals. They were alerted to the problem by reports last year of a sharp increase in skin burns, eye complaints and allergies in the area.

It is the first time an international group of eye and skin specialists, immunologists, optical physicists and epidemiologists will have the chance to examine the veracity of these reports, and whether the health complaints can be linked to overdoses of radiation. They will also study the feasibility of setting up a full-scale project to monitor the long-term health effects associated with ultraviolet radiation. Like x-rays, the effects of UV-B exposure are cumulative.

Although the intensity of ultraviolet radiation hitting Punta Arenas is still below the levels received near the Equator, what interests the Johns Hopkins team is the impact of sudden increases in exposure. "We want to know whether these sharp aberrations in UV-B levels, which expose people to several times the amount of radiation they are used to, can cause acute or chronic health problems over the years," says Oliver Schein, the team's head.

The scientists are taking several devices to monitor UV-B exposure in different occupational groups. Farmers, fishermen and office workers in Punta Arenas will carry UV-B dosimeters similar to x-ray counters.

Kirk Gellat, a veterinary ophthalmologist, will be looking at the reports of blindness in animals. "It is possible," he says, "that animals exhibit symptoms before humans because their lifespans are shorter."

The pilot project is being financed by the US Environmental Protection Agency, the Chilean Health Ministry and the University of Chile.

PEOPLE

'Aberdeenshire man who left Hong Kong'

Lord Wilson (left), who recently retired as governor of Hong Kong, is to become chairman of Scottish Hydro-Electric, the privatised electricity company which serves the north of Scotland. It will be his first boardroom appointment and he will make it his major task. He will succeed Sir Michael Joughin on April 1 1993.

Lord Wilson, who is 57, meets one of the obvious criteria for the job – being a Scot. He took his title, Lord Wilson of Tillyorn, from the cottage in Aberdeenshire, at the heart of Hydro-Electric's area, where he spent his home leaves from Hong Kong.

"I have half grown up with Hydro-Electric," he said yesterday, "and walked an awful lot of the hills in the Hydro-Electric area."

However, having been either in government service or in academic life for all his life, mostly connected with Chinese affairs, he is not a businessman and says he will have a lot to learn.

Hydro-Electric is an attractive animal as electricity companies go, with a rural image but a nimble performance in establishing markets and building a gas-fired power station in England.

Joughin, who will be almost 67 when he steps down, was a farmer and broadcaster of Conservative persuasion who was made chairman of the old North of Scotland Hydro-Electric Board in 1983.

His bluff manner belies the shrewdness which helped him persuade the government to privatise Scottish electricity as two companies rather than one (to the disappointment of ScottishPower). "Electricity will always be a political commodity," he says. Wilson is smoother but, from years of dealing with Chinese, no less politically acute.

Wilson was approached by Hydro-Electric when Joughin read an "Aberdeenshire man leaves Hong Kong" type article about Wilson in the Aberdeen Press & Journal. The efforts of headhunters had proved fruitless.

From Lambeth Council to CRE

The Commission for Racial Equality, the statutory body set up in 1976 to help promote equality of opportunity and to eliminate discrimination, is to get its first black chairman.

Herman Ouseley (right), 46, born in Guyana and brought up in Peckham, south London, takes over in February.

His appointment comes at a sensitive time for race relations. Immediate issues facing him will include unemployment – which affects members of the ethnic minority communities disproportionately and is being aggravated by the recession – and the state of race relations law.

Although the government has shown little inclination to strengthen the Race Relations Act in the past, the commission is arguing for changes to "challenge entrenched forms of discrimination more effectively". These would include statutory provision for workplace ethnic monitoring and a discrimination division in the industrial tribunals system.

Kenneth Clarke, home secretary, says he took a personal interest in this "key appointment" to the CRE; the commission had secured in Herman Ouseley a "dynamic and resourceful" chairman with proven management and leadership skills.

Ouseley has needed these skills to the full in his present post as chief executive of Lambeth council in south London. Lambeth has a long tradition of controversy, sometimes marked by clashes between elected members and full-time officers. Earlier this year Ouseley instructed his staff to walk out of meetings if they were abused by councillors, saying he would not allow staff to become victims of "officer-baiting".

Sir Michael Day, the present chairman who is coming to the end of his five-year term of office, went to the CRE from the West Midlands probation service. Clarke says Sir Michael had "worked ceaselessly towards the fair society we all want".

Brian Goldthorpe

Brian Goldthorpe, one of Midland Bank's most experienced bankers, died at the weekend after a short illness.

A straight-talking Yorkshireman, he joined Midland direct from school in 1949, rising to become deputy chief executive. After Midland was bought by Hongkong and Shanghai Bank in the summer, Goldthorpe was chosen to become a Hongkong Bank director with responsibility for controlling worldwide credit risk. However, he resigned because of ill-health in September.

He is a particular loss to the bank because he was one of only a tiny number of long-serving Midland executives who survived a series of purges of the top management during the 1980s. Colleagues say his experience will be difficult to replace.

Finance moves

- **Nicholas Whitney** has been appointed chief executive of HOARE GOVETT. Formerly head of UK research at Rowe & Pitman and group research director following the merger with Warburgs, since last year he has run Whitney Research.
- **Stephen Myhill**, head of sales and marketing, has been appointed to the board of BIRMINGHAM MIDSHIRES Building Society.
- **Keith Hewett**, formerly director of strategic development, has been appointed finance director of PREMIER ADMINISTRATION.
- **Richard Watt** has been appointed head of Latin American investments at GARTMORE INVESTMENT; he moves from Kleinwort Benson International Investment.
- **Mark Longden**, formerly a director of James Capel Europe, has been appointed executive director and worldwide product manager for UK and European equities at LEHMAN BROTHERS INTERNATIONAL.
- **Ian Strafford-Taylor** has been appointed head of global securities borrowing and lending at Union Bank of Switzerland, based in London; he moves from Morgan Stanley International.

Telegraphed

Dan Colson, the London-based Canadian lawyer and long-term associate of Conrad Black, publisher of the Daily Telegraph, is to join The Telegraph group as an executive director from the beginning of December.

He will be director with responsibility for acquisitions and external relations, but will also be vice-chairman of the group – which publishes the Daily and Sunday Telegraph and has stakes in a number of other newspaper groups around the world.

Colson, 45, a senior partner of lawyers Stikeman Elliott, has been a non-executive director of The Telegraph since 1986 and is also a director of Hollinger, its Canadian parent. He is chairman of the executive committee of The Telegraph's associated company in Australia, John Fairfax, publishers of the Sydney Morning Herald and the Melbourne Age.

Sir Frank Rogers remains deputy chairman of The Telegraph. But one member of the star-studded non-executive board, financier Sir James Goldsmith, has decided to retire. Sir James says he is so seldom in the UK that he cannot be present at the periodic board meetings and so cannot meaningfully contribute to the affairs of the company.

FINANCIAL TIMES SURVEY

KOREAN FINANCIAL MARKETS

Wednesday November 18 1992

The strict government regulation of South Korea's financial system has outlived its usefulness. But while reforms are badly needed, officials fear that liberalisation could release forces damaging to the economy. John Burton reports

Deliberating over change

SOUTH Korean bureaucrats are in a quandary as they prepare to unveil important financial liberalisation proposals next month.

They realise the country's antiquated financial system needs to be overhauled to improve industrial competitiveness. But they fear deregulation will also unleash forces that could disrupt the economy.

How they resolve this dilemma is one of the most important issues confronting South Korea in the 1990s, since financial liberalisation holds the key to the country's progress.

The government successfully used the financial system to transform South Korea into a mighty industrial power during the past three decades. The state borrowed money from abroad and funnelled it through the quasi-government banking system to strategic industries at low interest rates.

But this system, appropriate for a developing country, has lost its ability to allocate funds efficiently as South Korea's increasingly sophisticated economy defeats efforts to manage it by bureaucratic fiat.

Government controls, including regulated interest rates, stringent limits on capital and foreign exchange transactions, and credit allocation, have led to distortions in the financial system.

The result is high interest rates caused by a chronic shortage of capital. This has occurred even though South Korea has one of the world's highest savings ratios.

Financial regulation is hampering the country's industrial development at a critical point as South Korea tries to navigate the route taking it from being a low-cost producer of cheap bulk goods to a manufacturer of high-tech products.

Companies have problems funding research and improving productivity because of the restrictions on credit and foreign corporate borrowing. High financing costs have saddled the big conglomerates, or *chaebol*, with huge debt burdens, reducing their profitability. Many small and medium businesses face the threat of bankruptcy.

The financial system is also discouraging foreign investment since foreign companies have problems raising capital locally or transferring funds from abroad.

Officials acknowledge that the financial system is causing problems but they remain cautious about change. Their hesitation in introducing fundamental reforms reflects concerns ranging from the loss of bureaucratic control and fear of foreign ownership to economic destabilisation and the banking industry's weakness.

Officials argue, for example, that speedy liberalisation would damage the economy, with a sudden influx of capital causing inflationary pressure and sending interest rates higher. "We don't want to experiment with the economy," Mr Oum Bong-sung, counsellor to the Minister of Finance, says.

"Credit demand will continue to exceed supply even in a liberalised market," Mr Kim Chang-lok, director of the Ministry of Finance's International Finance Division says. "Koreans like to speculate and much of the borrowed funds will go into the property market because it offers better rates of return on investment.

"Rapid financial liberalisation would not solve our need for capital and it could reduce the savings ratio."

The government cites its earlier attempt to deregulate interest rates in 1988, which caused rates to rise and forced the reform to be aborted, as an example of the challenge it faces. It argues that a gradual approach is necessary to avoid adverse side effects.

Most international economists agree that a short-term rise in interest rates is almost certain once deregulation is introduced because of the country's capital shortage. But they add that rates will fall in the long term as capital inflows ease the funding shortage and the increased availability of other financial investments attracts money from the property market.

Also impeding liberalisation is the unpreparedness of domestic financial institutions, particularly the banks, to deal with market deregulation.

The country is overbanked, with large bank staffs, inefficient management and inadequate services. The regulated interest rate system has guaranteed bank profitability since the interest rate spread between lending and deposits is two to four times higher than in the US and Japan.

Deregulation will create the need for rationalisation, while forcing the banks to develop such management skills as credit analysis instead of relying on government guidance in making loans. Bank supervision and regulations must also be strengthened, including the possible introduction of a deposit insurance system.

But perhaps the most worrying danger facing the banks is that of their large non-performing loans and assets, the result of government policy requiring banks to provide "policy loans" at subsidised rates to strategic industries.

Banks have also been forced by the government to invest in securities as part of an unsuccessful attempt to bolster the stock market, but the value of these shares has fallen. Although the weakness of the banks is due to government intervention, officials are now using their troubles as a reason to delay liberalisation.

Liberalisation, however, has potential advantages for the banks. Interest rate deregulation will allow them to recover deposits lost to other financial institutions, such as short-term finance companies, which now offer better interest rates.

Slowing down liberalisation is the fear that foreigners, particularly the Japanese, will take advantage of the relaxed controls to increase their economic influence over South Korea. Koreans still harbour strong resentment towards Japan because of its colonial rule between 1910 and 1945.

The government also worries that the *chaebol* will consolidate their economic dominance under the financial reforms. The abolition of credit allocation will allow the *chaebol* to monopolise financial resources at the expense of small and medium businesses, officials argue.

The *chaebol* have been winners and losers under the financial system. Their growth was spurred by the state-mandated subsidised loans, with easy credit encouraging them to build up huge debt/equity ratios.

But the government has cracked down on the *chaebol* in the past few years in an attempt to curb their power. Limits on foreign borrowing and other credit restrictions have driven up their financial costs, while increasing their debt burden.

Although financial liberalisation would remove one restraint on the *chaebol*, the government has other ways of keeping them under control if it introduces new rigorous anti-trust laws.

But financial liberalisation will still represent a loss of power for the bureaucracy, which has used financial controls to keep industry dependent on the state. Deregulation will also mean the government will have to compete against the *chaebol* in acquiring funds, raising state costs. Consequently, there is resistance among officials to reforms.

All these concerns will almost certainly lead Seoul to reject the Anglo-American model of a financial system governed largely by market forces. Instead, reforms will follow the Japanese model, with the easing of some controls and retention of others to ensure that the financial system still plays an influential role in industry policy.

Less certain is whether South Korea will be able to stick to its preferred course of gradually relaxing interest rates and foreign capital movements.

The country is under pressure from the US to accelerate the liberalisation process. A "wild card" is the possible sudden collapse of North Korea and a German-style takeover by the South. This would cause an enormous demand for capital and may force it to open up its financial market more rapidly to attract foreign investment.

Seoul: the financial system is discouraging foreign investment since foreign companies have problems raising capital locally or transferring funds from abroad

Sector c
ahead

KOREAN FINANCIAL MARKETS 2

Seoul's efforts to curb the economic power of the chaebol have come under fire

Industrial empires still dominate

THE South Korean government's tight regulation of the financial system is closely linked to its industrial policy. Officials argue that they must retain control over the financial system in order to curb the economic power of the family-owned conglomerates, or *chaebol*.

The government wants to make the *chaebol* more efficient by forcing them to prune their sprawling industrial empires and instead concentrate on a few important core businesses. It also seeks to reduce what it considers the pernicious influence of the family owners on corporate management.

But critics contend that the state's use of the financial system to achieve those goals has failed and should be abandoned.

"The economy has become too developed for the government to rely on the financial system as an effective instrument for industrial restructuring," said Mr Jwa Sung-hee, a researcher at the Korea Development Institute (KDI), the government-affiliated policy centre.

The government originally used its power over the financial system to promote the growth of the *chaebol* in the 1960s and 1970s by providing them with cheap loans. Then President Park Chung-hee believed that the emergence of the business groups would help the country to industrialise quickly.

But by the 1980s, the government of President Chun Doo-hwan decided that the *chaebol* had grown too large. They were monopolising bank loans and their economic dominance was hindering the development of small and medium businesses.

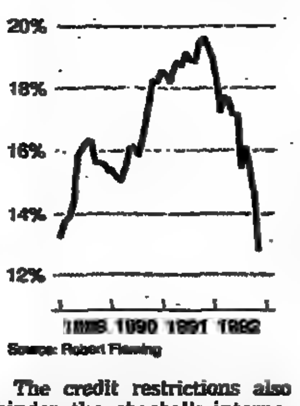
Moreover, the *chaebol* were criticised for spreading their resources too thinly by competing in many of the same industrial sectors, from cars and ships to construction and electronics. The intense competition reflected the personal rivalry among the *chaebol's* family owners.

Credit restrictions were introduced in the mid-1980s, which limited the percentage of bank loans that could be given to the *chaebol*.

However, the export boom of the late 1980s weakened the impact of the credit controls and had little appreciable effect on the growth of the *chaebol*. They still enjoy lower financing costs than smaller companies, which must often borrow from the secondary "kerb market" at higher interest rates.

The *chaebol* believe that the government's attempts to regulate them are misguided. They argue that industrial diversification is important because profitable subsidiaries are able to support the emergence of new industries.

Corporate bond yield



Source: Robert Fleming

The credit restrictions also hinder the *chaebol's* international competitiveness since they are forced to pay higher financing costs than their competitors in Japan and Taiwan.

A new round of reform measures was recently introduced by the government of President Roh Tae-woo after the *chaebol* were criticised for using some of their profits from the 1980s boom to invest in property, which helped increase land prices and caused public protests.

Although the *chaebol* engaged in property speculation to help raise funds that were denied them through the banking system, the government argued that the companies should have invested more of their earnings in research and development or improving industrial facilities.

The government last year stipulated that the 30 biggest *chaebol* should each select three core businesses that would form the focus of their future activity.

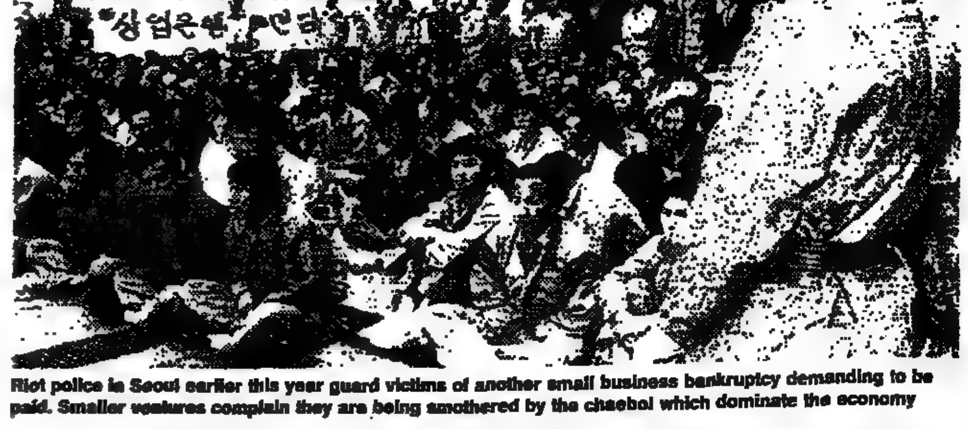
The intention was to continue to use the *chaebol* as vehicles for economic development by lifting credit restrictions on the designated core companies, while squeezing credit given to other subsidiaries in compliance with the government's goal of reducing the size of the *chaebol*.

But this compromise solution has been called a failure by the KDI in a recent report. Instead of selecting high-tech business areas as the government hoped, the *chaebol* picked either financially weak or capital-intensive subsidiaries for the unlimited bank loans.

A number of core companies were in the same business sectors, contributing to a duplication of industrial operations. Twelve *chaebol*, for example, selected petrochemicals as one of their core activities, even though Korea is suffering from excess production capacity and unprofitability in this sector.

Another weakness with the system is that there are few controls to determine whether the core companies are funnelling the bank loans to non-core concerns.

The proportion of bank loans to the top 30 *chaebol* has barely changed since the policy was first introduced, and the number of *chaebol* subsidiaries continues to multiply instead of shrink.



Riot police in Seoul earlier this year guard victims of another small business bankruptcy demanding to be paid. Smaller ventures complain they are being smothered by the chaebol which dominate the economy

"We haven't found the optimal policy yet toward the *chaebol*. We are still in a transition phase," admits Mr Suh Sang-mok, an influential government MP. "The *chaebol* are an important part of the Korean economy. We cannot apply shock treatment to them."

The government now wants to reduce cross payment guarantees among *chaebol* subsidiaries. This could threaten some financially weak units since reduced guarantees could discourage banks from lending to them.

Most *chaebol* are in a financially vulnerable position, with the average *chaebol* having a debt/equity ratio of 350 per cent, a legacy from the days of easy credit.

"The *chaebol's* heavy debts have made hostages of the commercial banks, which fear that the collapse of one *chaebol* company would lead to downfall of the entire business group as a result of the cross-payment guarantees," explains Dr Suh.

The KDI report argues, however, that the government should abandon its attempts to regulate the size and diversification of the *chaebol* through credit controls, explaining that the strength and maturity of these groups makes such efforts "dubious and even anachronistic".

Instead, attention should focus on widening their ownership, which will eventually loosen ties among the *chaebol* subsidiaries. It would also reduce the influence of the family owners, who would be replaced as corporate executives by professional managers.

A stronger inheritance and gift tax system would encourage the family owners to sell shareholdings to their employees or the general public. Mr Kim Young-sam, the next likely president of South Korea, has indicated that he would make this approach the centrepiece of his *chaebol* reform policy.

Further steps could be taken to encourage banks and other financial institutions to become main *chaebol* shareholders.

One proposal being discussed is that the banks convert some of their outstanding *chaebol* loans into equity holdings. This would be combined with tougher rules that would prevent the *chaebol* from taking control of the banks.

The *chaebol* have already succeeded in gaining ownership of about half of the country's non-bank institutions, including insurance companies and brokerage firms, and used them to bypass the controls on bank loans.

About two-thirds of *chaebol* loans are provided by banks, while the remainder comes from secondary financial institutions.

John Burton

CORPORATE BORROWING

Searching for funds

KOREA'S leading corporate names are pressing for freedom to tap international capital markets in order to reduce funding costs and improve the competitiveness of their products.

The cheaper borrowing available in the international bond markets is particularly attractive to Korea's high-tech companies which need to invest heavily in research and development to compete at an international level.

Korean companies have tapped international capital markets with a growing number of issues since the mid-1980s. Overseas securities offerings peaked in 1991 as Korean companies raised a total of $1.06bn in convertible bonds, bonds with warrants and depositary receipts, according to the Securities Supervisory Board. So far this year, companies such as Pohang Iron & Steel (Posco), one of the world's largest steelmakers, and Korea Electric Power Corporation (Kepco) have borrowed in the Yankee bond market and others are lining up to follow suit.

However, Korean companies complain about government restrictions on overseas borrowing: the business community has been lobbying for the removal of all controls as the Ministry of Finance proceeds with the liberalisation of the domestic financial markets.

At present, Korean companies may only tap the international capital markets if the proceeds are used either for investment in their overseas operations or to finance the import of advanced technology unavailable in Korea. The proceeds may not be repatriated for the financing of domestic operations.

While officials at the Ministry of Finance are well aware of the benefits of lower funding costs to Korea's leading corporate names, they remain concerned about the possible effect of such borrowing on the Korean economy. The restrictions reflect government concern that the money raised abroad would be transferred back to Korea, increasing the money supply. The government is determined to curb inflation and has set its M-2 money supply growth target at 18.5 per cent for the year.

To tap international capital markets, companies need permission from the Ministry of Finance and, at present, corporate demand exceeds the amount permitted, according to investment bankers in Seoul.

Domestic sources of financing remain limited or relatively expensive for borrowers. The weak state of the stock market has made it difficult for companies to issue large domestic share offerings. The cost of borrowing in the domestic bond market remains relatively high, even though three-year corporate bond yields have fallen from over 19 per cent at the end of 1991 to below 13 per cent in October. Meanwhile bank loans are subject to guidelines on credit allocation and so are not always easy to obtain.

For high-tech companies such as Samsung Electronics, Korea's largest electronics group, and Hyundai Motor, the car manufacturer, which need to invest large amounts in research and development, the high cost of funding in the domestic markets can prove a handicap.

"The availability of funds is one of our main problems, as well as the cost of funds," says Mr Young-Key Hwang, executive director and group treasurer at the Samsung Group. He reckons that the cost of funds in the international capital markets approaches 8.5 to 9 per cent, while domestic bond yields are still in double digits. The result could well be to force Korean companies to curb capital expenditure and focus on the rationalisation of their businesses.

Sara Webb

THE STOCK MARKET

Analysts sceptical

THE Korean stock market remained tantalisingly out of reach for overseas investors during the high-growth years of the 1980s. Those who wanted to profit from Korea's enviable economic performance had to be content with investing through country funds and convertible bond issues, while continuing to press for direct access to one of Asia's most exciting markets.

In January 1992, their wish was granted. Restrictions on direct ownership were relaxed, but the opening up of the market could hardly have been less auspicious. Overseas investors were confronted by cumbersome red tape, less-than-generous limits on ownership and a market in decline.

The Korea Stock Price Index (KOSPI) started the year at 624.23 and tumbled to a low of 459.07 on August 21, well below the all-time high of 1007.77 seen on April 1, 1989. Worries about the slowdown in economic and corporate earnings growth and the trade deficit lie behind the fall.

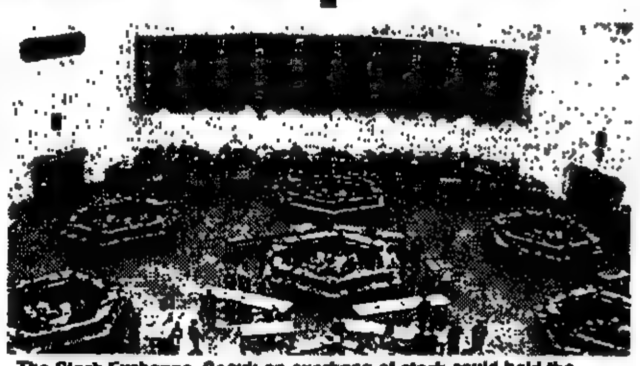
With such a lacklustre performance, foreigners were reluctant to rush in at first. Net foreign investment reached $1.37bn in the first 10 months, well short of the $2-4bn initially predicted.

Limits on foreign ownership were set at 10 per cent for most companies, although some – such as the Korea Long-Term Credit Bank – are free to raise the threshold to 25 per cent if they wish. So far, the foreign ownership quota has been met by only 70 or so out of a total of 680 listed companies.

About 15 of those 70 companies have reached the upper limit through direct portfolio investment, according to the Securities Supervisory Board. The remainder reached their 10 per cent limit through joint venture or direct investment agreements.

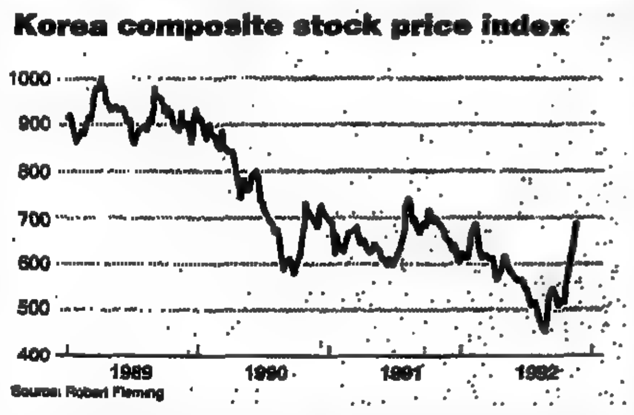
The limits pose serious problems for international investors, diminishing their appetite for Korean stocks. The main problem is liquidity. Big investors who want to buy or sell $3-4m in one stock are restricted in their choice. In addition, global fund managers tend to be guided by international indices when allocating assets. Korea, which is not a completely free market, has only 20 per cent of its market capitalisation included in the Emerging Market Free Far East Index provided by Morgan Stanley Capital International, whereas countries such as Indonesia and Thailand are included at 100 per cent.

"At 10 per cent the market is still effectively closed to foreigners," says Mr Torquil McAlpine, branch manager of Schroders in Seoul. Foreigners hope the Ministry of Finance may soon raise the limits to 20 to 25 per cent for most listed companies. Such a move would "be a shot in the arm for the market and would send a message to international investors that Korea is adopting a more open attitude," says Mr Peter Thorn, branch manager of W I Carr in Seoul.



The Stock Exchange, Seoul: an overhang of stock could hold the market's recent rally in check

Korea composite stock price index



Source: Robert Fleming

That Korea needs to send such signals to global investors is clear. A recent Euromoney survey of investor interest in the emerging markets showed Korea trailing behind other Far Eastern emerging markets such as Malaysia, Taiwan, Thailand and Indonesia.

Analysts claim that many of the risk capital investors who would once have been wooed by Korea are now turning to the next generation of Asian tigers such as China and Vietnam.

The government has tried to encourage investors with a string of rescue packages aimed at reversing the stock market's decline. In December 1989, Korean investment trust companies were told to borrow funds from banks and invest the money in the stock market. In May 1990, a 4,000bn-won stock market stabilisation fund was set up. The proceeds – provided by listed companies – were intended for equity investment. The measures provided only short-lived relief in the market, which then continued its decline.

The most recent support measures, announced shortly after the market hit its low this year, were intended to force institutions to buy stocks. Institutional investors must remain net buyers, with bank trust accounts, insurance companies and pension funds instructed to invest a specified amount within a set period.

Additional measures were proposed to woo back individual investors, increase liquidity and reduce market interest rates. The market has since shown signs of recovery, helped by the fall in interest rates, the decision to lift restrictions on foreign ownership of shares in Posco (the iron and steel company) and Kepco (the power group), as well as the feeling that the stock market was looking cheap. As a result, the index has recently risen to levels seen at the start of the year.

Many investors are hoping the winner of December's presidential election will propose measures to boost economic growth which would provide further impetus for the stock market.

However, analysts remain sceptical about the extent to which the market can recover, primarily because banks, brokers and financial institutions are sitting on an estimated $10-15bn (out of a total market capitalisation of about $75bn) in shares due to the assorted market-support measures. There is no doubting their desire to offload the stock as soon as a suitable opportunity arises, and it is this overhang of stock which analysts believe could hold the market's rally in check.

Sara Webb

SECURITIES

Going gets tough

A FOREIGN fund manager visiting a Korean securities firm in the high-rise financial district of Youido was horrified to find the staff playing table tennis.

His tale is not unusual: the Korean securities industry expanded rapidly in the late 1980s, but many stockbrokers now find they are overstaffed and overbranched at a time when commission income is falling because of the weak stock market. Added to this, competition on their home turf has increased as several foreign securities houses have set up branches in Korea to accompany the opening of the market to foreigners.

The securities sector is in need of rationalisation. Overheads are high, after expansion at home and abroad, but Korean securities houses are reluctant to cut branches and staff. Given the Korean cultural aversion to sacking employees, securities companies admit the only way they can curb growing wage bills is by halting annual recruitment.

Commission income for equity trading is down as the bear market has deterred individual investors, who once dominated activity, and institutions – although the latter are obliged to invest specified amounts in the market as part of the government's attempts to prop up share prices.

The securities houses, too, have been forced to participate in stock market support measures and many are sitting on enormous share portfolios on which they have made a loss. Daewoo Securities, the largest broker, said its holdings amounted to about Won500bn at the end of September, and it expects to see a 15 to 20 per cent book loss on its portfolio at year-end.

One foreign analyst estimates the big securities houses are sitting on share portfolio losses of $100-200m each. The Securities Supervisory Board points out that most of the securities houses made losses in the first six months of the financial year, with combined losses for the 10 largest brokers amounting to Won76bn.

The outlook remains bleak as Korean securities houses expect to face increased competition from the handful of foreign brokers that have opened branches in Seoul. Branch status allows a foreign securities house to conduct research and liaison business, and to generate revenue by placing buy and sell orders. However, the orders have to go through a Korean broker, who receives 30 per cent of the commission.

Jardine Fleming, one of the first to open a branch, admits that under current market conditions it is not making a profit on the broking side: instead it makes money by investing part of its Won10bn minimum capital requirement in the high-yielding bond market and from proprietary trading. Baring Securities and Jardine Fleming both made small losses in their first year as branches, but compared with their domestic rivals, they have the advantage of being leaner outfits, without a large branch network and huge workforce.

The domestic houses see them as a threat for several reasons. First, Koreans would prefer to do business directly with overseas investors, rather than share the commission with a foreign house.

Secondly, they are worried that foreigners could steal their domestic institutional clients. So far, foreign houses have made little headway on that front. Business in Korea depends primarily on relationships built up over many years. As one Korean stockbroker puts it: "In Korea there is no big difference between the securities houses in terms of transaction costs or research. Fund managers often have their own research team – what is more important is the relationship with the broker, the frequent calls, visits and dinners."

Yet attitudes appear to be changing. Foreign houses place far more emphasis on the quality of their research and some Korean houses admit that with the arrival of foreign houses, Korean institutions are showing a keener interest in the research material put out.

Finally, if stock market activity picks up, some foreign houses may be tempted to put up the relatively large sum required for a seat on the stock exchange, allowing them to trade directly.

"At the moment, the volumes generated simply do not justify a seat," says Mr Philip Smiley, branch manager of Jardine Fleming. But if and when they do, Korean brokers believe they will provide "really tough competition".

Sara Webb

Reforms are held in a bureaucratic tug of war

Battle for change

A BUREAUCRATIC struggle being waged between the country's three leading economic agencies will largely determine the future of South Korea's financial liberalisation programme.

The Economic Planning Board (EPB), traditionally the senior economic agency in the government, favours an accelerated push for financial liberalisation. But the powerful Ministry of Finance (MOF) is resisting rapid change and wants to maintain control over the financial system.

Caught in the middle of the dispute is the Bank of Korea (BOK), the central bank, which has become a proponent of financial reform in a bid to gain independence from the MOF, its political master.

The EPB has been the most influential state economic agency since it was established in 1961 by President Park Chung-hee to supervise South Korea's industrialisation programme.

It played the central role in South Korea's dirigiste economy over the next three decades, drawing up five-year plans that determined the country's industrial structure. EPB's strength reflected the concentration of power within the Blue House, the executive mansion, under Presidents Park and Chun Doo-hwan.

One indication of its senior position in the official hierarchy is that the EPB director is also automatically the deputy prime minister, while the EPB headquarters physically dominates the Kwachon government complex, overlooking the other economic ministries from its hilltop location.

But the EPB's power has waned under President Roh Tae-woo who has favoured decentralising power to the individual ministries as part of the country's democratisation process. Mr Roh, who likes foreign policy, has also paid less attention to economic issues than his predecessors.

"The EPB has become an institution without a role as economic planning becomes less important," says one western diplomat. "It is becoming more academic in its thinking and more liberal in its policy recommendations, including financial liberalisation."

The case for financial liberalisation within the EPB is supported by the fact that many of its senior staff were educated at US universities and have been influenced by market-based economic theories. The MOF gained influence at the EPB's expense, consolidating its already powerful position in the Korean bureaucracy.

Critics charge that the MOF is becoming the centre of resistance to financial reform because its officials are reluctant to relinquish the power they wield. Under the current regulated financial system, the MOF determines the allocation of credit to industry, decides what companies can borrow funds from abroad and who will lead the nation's banks.

Due to their influence, MOF officials can also find secure jobs in the financial sector once they retire from government. "Retired MOF officials won't have any place to go to under financial liberalisation," said one Korean financial analyst.

MOF officials disagree. "MOF is being blamed more than it ought to be," says Mr Oum Bong-sung, an advisor to the Finance Minister. "Our critics are unaware of the practical difficulties of financial liberalisation."

Cho Soon, the new BOK governor

But some of the most harsh comments within the MOF are reserved for the BOK. Tensions between the two agencies have grown in the past few years as the BOK attempts to assert its independence from the MOF.

The BOK is now one of the most tightly controlled central banks in the world, according to a recent study by the World Bank, which ranked it as 42nd out of 56 central banks surveyed in terms of independence. "The government favours keeping control over both fiscal and monetary policies, so it wants continued co-ordination between MOF and the BOK," explains one MOF official.

The government has often interferred in BOK operations, frequently replacing its governors and encouraging an expansion of the money supply in an attempt to boost economic growth.

But Mr Cho Soon, the new BOK governor appointed in March, has become outspoken in criticising the government and demanding financial reform. Mr Cho was head of the EPB between 1988 and 1990, but was forced to resign because his strong views on economic deregulation angered politicians and the business sector. His appointment as BOK governor was consequently considered something of a surprise and he has lived up to his reputation for independence.

Earlier this year, he successfully fought to tighten the money supply in a bid to lower the inflation rate and restore stability to the country's overheated economy. He is now battling with the MOF in pushing for faster deregulation of interest rates.

Interest rate deregulation would improve the BOK's ability to control the money supply and fight inflation, while giving it a more independent role through its exercise of open market mechanisms. It would also deprive the MOF of its power to allocate cheap credit to favoured industries – one of its most cherished privileges.

MOF announced last year that it would deregulate interest rates in four stages by the end of the century. The bank and the ministry are now arguing about when to introduce the second stage – scheduled by the MOF for between last July and the end of 1993 – considered crucial since it frees most lending rates.

With interest rates recently falling sharply, the bank believes now is the time to launch the second stage. But the MOF remains cautious, saying the early introduction of the second phase would cause interest rates to jump.

Most analysts believe, however, that this will not happen since corporate demand for funds is falling as many industries curb investment because of excess production capacity. Instead, the MOF's resistance is considered symbolic of its innate conservatism. It wants to avoid any risk of an interest rate rise before the presidential election in December.

The MOF is still considered strong enough to resist pressure from the EPB and the BOK on speeding up financial reform. Nevertheless, the election of South Korea's next president could alter the outcome of the bureaucratic struggle.

Mr Kim Young-sam of the ruling Democratic Liberal Party (DLP) is favoured to win the election. Although Mr Kim admits to a lack of economic expertise, some of his advisors are considered strong reformers of the financial system.

Their ability to accelerate financial liberalisation will depend on whether Mr Kim can reassert the power of the Blue House over the bureaucracy in economic affairs. Some doubt that Mr Kim can succeed, since his base of support within the ruling party is small, making it difficult to oust leading economic officials appointed by the Roh administration.

John Burton

Financiers await the most important phase of liberalisation

Sector on tenterhooks ahead of proposals

THE Korean financial sector is holding its breath. Proposals to be unveiled next month could radically alter the shape of the system, but uncertainty remains about how far-reaching the changes will be and when they will be completed.

The steps to be announced in December are the last – and the most important – of the three-stage financial liberalisation blueprint that the Ministry of Finance (MOF) has been preparing this year.

The MOF agreed to produce a schedule of measures after President George Bush's visit to South Korea in January. The US, Seoul's closest ally, has been pushing for financial liberalisation to improve investment prospects for foreign companies in South Korea.

The first two phases, unveiled in March and June, consist of measures designed to allow foreign financial institutions greater access to the Korean market. However, these reforms, which will take effect between now and 1996, will have only a limited impact on the structure of the Korean financial system since they are concerned with relatively minor issues.

Included are measures making it easier for foreign banks – which face restrictions on bringing capital into the country – to raise local currency funds in the domestic market. The amount of certificates of deposits that foreign banks can issue locally is being increased and foreign banks will be given equal treatment in the inter-bank market.

A reduction in foreign exchange restrictions is also being introduced to improve access to funds. Limits on foreign exchange positions of banks will be eased, while the band for exchange rate fluctuations is being widened. These measures are expected to lead to the internationalisation of the Korean Won.

It is the third set of long-term measures, scheduled for implementation after 1997, that deal with the fundamental principles of the current tightly-regulated system.

The issues include:

● Full-scale interest rate deregulation, which provides the foundation for other financial liberalisation measures. The government has already started to deregulate interest rates in four stages, a process that is expected to be completed by the end of the century. Long-term rates will be deregulated before short-term ones, while lending rates will be freed before deposit rates.

Deregulation is expected eventually to reduce interest rates, now higher than those of Korea's competitors

All interest rates on loans will be fully liberalised by 1996, while 70 per cent of deposit rates will also be freed. The final stage, from 1997, will lift the regulation of short-term demand deposit rates and interest rates on government and public bonds.

Deregulation is expected eventually to reduce interest rates, which are now higher than those of Korea's main trade competitors. It will also end the practice of "policy loans" which banks must grant at below-market rates to industries deemed strategic by the government. Policy loans account for 45 per cent of total bank credit and have contributed to the banks' bad-debt problems.

● The liberalisation of capital transfers into and out of Korea. This will give Korean companies greater access to international capital markets and reduce their borrowing costs, while promoting increased foreign investment. The Ministry of Finance now regulates tightly which Korean companies can borrow from abroad.

● The abolition of credit allocation controls. Banks are now required to provide at least 35 per cent of their total lending to small and medium businesses, while they face restrictions on lending to big business groups.

● Financial market deregulation. The stock market opened to limited direct foreign investment at the start of this year.

Controls are also being lifted on the domestic bond market, with foreign participation scheduled to take place after 1997. There are plans to establish a commodity and financial futures market. Korea needs better developed financial markets to improve its open market mechanisms governing monetary policy.

Although the MOF is committed in principle to achieving these long-term goals, questions still remain about the effects of the liberalisation programme on the financial system.

Decisions will be guided by the Korean preference for a financial system similar to that of Japan, where it is considered an instrument for guiding industrial policy. Thus the MOF recommendations may disappoint supporters of a more market-led Anglo-American financial system.

The Korean government might try to retain influence over the financial system by continuing to restrict the independence of the Bank of Korea, the central bank, and influencing the appointment of senior bank executives.

Another factor that will affect the outcome of financial liberalisation is the future ownership structure of the domestic banks, which have been the main tools of government control of the financial system.

The Federation of Korean Industries wants the government to allow the *big industrial conglomerates*, or *chaebol*, to become main shareholders in the commercial banks.

It argues that *chaebol* ownership would promote competition within the banking industry and enhance management efficiency. It would also extend the *chaebol's* ownership over a large share of Korea's financial institutions.

Bank ownership is now fragmented, with no individual shareholder being allowed more than a 8 per cent stake. The dispersed ownership of the banks allows the government to retain influence over the banking sector in spite of its privatisation in the late 1980s.

The government consequently will resist the *chaebol* ownership of banks. Instead, it hopes the banks will take control of other financial institutions and reduce the *chaebol's* power.

Another unknown factor is the question of when the liberalization programme will be completed

Another unknown factor is the question of when the financial liberalisation programme will be completed since the government has given an open-ended deadline. "We know the key structural changes will start in 1997, but we fear they could take as long as a decade or two to complete," said a US official.

The MOF has set economic preconditions for introducing the third-stage reforms since it fears rapid deregulation could cause economic instability. It wants Korea to maintain a consistent current account surplus. Inflation must fall to 5 per cent, while the differential between domestic and international interest rates should narrow to 2 to 3 per cent.

The foreign financial community is concerned about whether economic targets can be achieved without introducing some of the third-stage reforms. "It's a chicken-or-egg situation," said one US banker.

But a recent improvement in economic performance is bringing those targets within sudden reach. The current account deficit could shrink to \$5.6bn from \$8.7bn in 1991. Inflation is expected to fall to 6.6 per cent for the year, while the interest rate gap is narrowing.

The improved economy and pressure from international financial advisors, such as the International Monetary Fund and the *World Bank, could* eventually force the government to accelerate financial liberalisation.

John Burton

PROFILE: CITICORP

Eyes on consumers

Market share of foreign banks (%)	1986	1987	1988	1989	1990	1991
Deposits	1.6	1.5	1.0	1.1	1.6	1.9
Won	1.4	1.3	1.0	1.0	1.6	1.7
Foreign currency	6.0	3.2	1.1	2.5	2.3	4.2
Loans	10.6	10.2	8.5	6.8	6.0	6.5
Won	5.9	5.8	5.6	4.5	4.2	4.8
Foreign currency	63.3	44.6	34.1	28.3	22.9	21.0
Total assets	10.8	10.5	9.4	8.7	8.1	5.8

Source: Bank of Korea

KOREANS can spend years cultivating relationships with their bank managers in the hope of eventually being able to borrow enough to buy a home. Korean banks prefer lending to the big industrial conglomerates dominating the Korean economy than *to* the ordinary consumer.

Hence Citibank's decision to break into the consumer banking market. One of the few foreign banks to have set its sights on the retail business in Korea, after five years it has 12 branches in Seoul and Pusan, the second largest city, and has won a reputation for good service by keeping a relatively high proportion of account managers to customers.

"The business opportunities here are fabulous," says Mr Howard Greene, Citicorp's country head of global consumer banking in Korea.

Citicorp has been successful because it has focused on prod*ucts which domestic banks* failed to develop. In the mortgage business, Korean banks tend to advance up to \$40,000 (about Won30m).

Some of the more paternalistic employers – for example Posco, the iron and steel group – help their employees own a home by lending them money at a lower interest rate.

But for many Koreans, the only way to scrape together enough is through a *kye*, an unregulated credit association run by relations and family friends who pool their money. Citibank said it would lend up to \$200,000 for a mortgage, provided the borrower met its creditworthiness criteria.

The US bank is now experi*menting with drive-in auto*mated teller machines, having spent months persuading the authorities to let it set up 24-hour touch-screen ATMs. Next year, it plans to overhaul its day-to-day banking products and services in what is still a predominantly cash society.

Citicorp says it is targeting upper-middle class customers rather than those described by bankers as "high net worth individuals". Already, it is making a small profit on its retail operations: this year it expects to make \$4m, with a further \$9m in 1993, compared with a loss of \$3m five years ago. It has set it sights on capturing between 2 and 3 per cent of the retail banking mar*ket. But even that* tiny portion has worried some of the Korean banks who resent the competition in their own backyard.

Sara Webb

New strategies will be needed after deregulation

'Wild West' in view

KOREA'S banks face a tougher future. The planned deregulation of the country's financial markets is expected to lead to fiercer competition forcing banks to focus on improving profitability through the reduction of overheads and better credit analysis.

"For the banks it will be like the Wild West," says Mr Young-Wook Chin, director of the Bank Division at the Ministry of Finance. "They will have to develop new strategies."

Korean banks have led a closely-regulated existence for many years. Privatisation may have freed the commercial banks from direct *state* control, but they must still obey guidelines on credit allocation, while interest rates on loans and deposits have been tightly regulated.

The first stage of interest rate deregulation at the end of 1991 affected bank overdraft loans, commercial paper, overdue loans, bank certificates of deposit, trade bills, repurchase agreements and corporate bonds with maturities exceeding two years.

However, the most important step will be the next one, consisting of the deregulation of interest rates on all bank lending (with the exception of loans financed by the government), longer-term deposits with maturities of more than two years, corporate bonds with maturities of less than two years *and bank* debentures with maturities of over two years.

Mr Choi Kak-Kyu, Economic Planning Board Minister, recently said this step would not be implemented until the first half of 1993. Once effected, 75 per cent of lending rates and 30 per cent of deposit rates will have been deregulated, according to the Korea Federation of Banks. By 1997, all interest rates should have been deregulated.

The lifting of interest rate regulations is expected to result in a narrowing of interest margins. The Office of Bank Supervision warns that liberalisation of interest rates will lead to tougher competition between the banks and lower profitability. So banks will have to focus on improv*ing profitability in a number* of ways. These include:

● Reducing expenditure and overheads. Many Korean banks have large branch networks and are overstaffed, with cumbersome administration departments. Some have stopped hiring new staff, and are supplementing expensive offices with automated teller machines.

● Introducing more competitive products which provide a higher return. Banks are already trying to move away from interest-bearing to more fee-based services, according to the Korea Federation of Banks, both in the corporate and consumer area.

● Improving credit analysis. Existing guidelines on credit allocation have done little to encourage good credit analysis *and, in the words of one for*eign banker, "the result is that lending is not conducted purely on good business sense and credit analysis".

Bankers complain that the numerous rules force them to make loans to risky borrowers. For example, 45 per cent of bank lending is supposed to go to small and medium-sized companies, but bankers argue that these are the ones currently feeling the pinch due to the combination of the slowdown in export growth and high interest rates. Many of them cannot meet their interest payments and bankruptcies among small and medium-sized companies have reached worrying levels with about 5,000 smaller concerns and 18 listed companies failing in the first nine months.

Non-performing loans have risen as a proportion of total assets from 1.8 per cent in 1991 to 1.9 per cent at the end of June: while the figure is well below the 1987 level of 5.4 per cent, it is still a cause for concern. The Office of Bank *Supervision is encouraging* banks to introduce loan office systems to evaluate credits and to monitor borrowers.

But some analysts are worried the proportion of non-performing loans may rise further in view of the characteristic high gearing of Korean companies and difficulties faced by the smaller companies.

Sara Webb

Television/Christopher Dunkley

Marks and sparks drama

More and more time on British television is being devoted to what might be called Marks and Spencer drama. ITV and BBC1 now depend on it to such an extent that you can find an example virtually every night serving, in mid-evening, as the keystone in the scheduling arch of one network or the other, sometimes both. Given its popularity and high production standards, it would be supercilious, and in some cases inaccurate, to dismiss the entire genre as middlebrow soap opera. But given its popularity, costs, and growing importance in the ratings, it seems as well to recognise precisely what it is.

Then again, perhaps it is easier to say what it is not. For instance one-off plays are scarcely Marks And Spencer drama, because with M & S you need to be able to go back next week and find something virtually indistinguishable from what pleased you this week. Almost all single dramas arise from the consciousness of a single, often idiosyncratic, author. Thus the first in a new BBC2 season of "Performance" on Saturday, Christopher Hampton's *Tales From Hollywood*, falls on four counts: it emerged entirely from his mind, was originally written for the theatre, is not a series or serial, and was in large part non-naturalistic. It was splendid to see effort put into the use of studio production for once, and the stylistic tributes to Edward Hopper, *Sunset Boulevard* and so on were fun, even if the end result was a teeny bit yawn-making. But it was not M & S.

Nor is any adaptation, from *The Borrowers* to *Clarissa*, because adaptations are, by their very nature, finite and one of the essential characteristics of M & S material is that you should be able to go on dishing it out forever, or at least so long as the public maintains its demand. Thus *GBH* and *The Singing Detective* also fall outside the genre. Not only are they finite, they serve the haute couture end of the market: high quality and originality, even a degree of eccentricity. Series such as *Civvies* may appear at first to be Marks and Sparks material when they are screened in M & S slots and serve the M & S clientele, but these too have to be disqualified on the grounds that they cannot be strung out indefinitely.

Perhaps the easiest definition is a list. You can currently see *Trainer* tonight (BBC1), *Rumpole Of The Bailey* tomorrow (ITV), *Casualty* on Saturday (BBC1), *The House Of Eliott* (BBC1) and *London's Burning* (ITV) on Sunday, and *Kinsey* (BBC1) and *Boon* on Tuesday. Other, current or recent examples might include *Soldier Soldier*, *The Ruth Rendell Mysteries* and *Taggart*, though once you start including detective series it is hard to know where to stop. *Poirot* and *Miss Marple* should probably be excluded on the grounds that they are adaptations and therefore finite, but what about *Inspector Morse*? Though the original programmes were taken from books, *Morse* scripts are now turned out by a team of script writers so in that and other respects *Morse* would seem to be a prime example of the genre.

What do these series have in common? They are nearly always 50 to 60 minutes long or suitable for transmission in 60 minute slots. They are naturalistic, with frequent use of outside locations (the amount varies, less in *Casualty*, more in *Boon*) and each episode costs far more than twice as much as a 30-minute episode of a soap opera such as *Coronation Street* or *EastEnders*. They constitute the high quality end of mass-production and, of necessity, scripts for practically all of them are commissioned from jobbing writers.

A good book may be, as Milton said, "the precious life blood of a master spirit" and once in a while you will come across a Marks & Sparks drama series which emerges from the mind of a single writer. *Rumpole* is the obvious example, but because John Mortimer writes all of them there is never more than a handful of Rumpole scripts each year. Mortimer might be appalled at the ease and accuracy with which commissioned writers could turn out *Rumpole* "forgeries", but presumably that will not happen while Mortimer is willing to continue. *In other series*, where 20 or 30 or even 40 scripts a year may be called for, the use of writing teams is unavoidable. PARA The result is drama which, like Marks and Spencer's clothes, benefits from a high level of quality control and is consequently consistent, safe, good value for money, reliable and wholly predictable. Most of the population will feel comfortable with it, and won't mind in the least if mother sees it. We are assured there was a bare breast in this week's *Casualty* but if there was it would not have shocked Annie Ethel: amid the efforts of the heroic nursing staff and the laughter and tears of all those fleeting bittersweet moments among the saline drips and kidney bowls, with the prize fighter and the fallen pylon man, some of us missed it altogether.

M & S products do not embarrass the customer or present any threat; practically everyone feels comfortable with them. M & S products do not go to extremes, indeed they stick as close as possible to a line through the middle of the market in order that as few people as possible will be put off. M & S products are reassuring and familiar. Above all M & S products are respectable. There is the occasional risqué moment in *London's Burning*, as when the non-drinking driver on the disastrous basket ball outing retired with his floozy to the mini-bus this week, but the hurried tucking-in of a shirt was the furthest that anything went.

Even within the genre standards do vary, of course. *Trainer* is an attempt to make an English *Dallas* with lashings of glamour and rich bastards stabbing one another's backs while the little people are ground down at the bottom. Usually it fails because the English have neither the chutzpa of the Americans nor their flair for off-the-wall craziness. Who could care less about any of the characters in *Trainer*? *Kinsey*, on the other hand, does have some interestingly developed characters, yet even they (the sparky secretary, the villainous competing solicitor, the liberal hero Kinsey himself) are remarkably predictable.

M & S drama is workmanlike, with plenty of narrative, and nothing to shock you or take you by surprise. No doubt it provides pleasant evenings for lots of people. But is that really all we require from these huge swathes of peak viewing time? Good art, not to mention great art, has always been produced by those who have paid close attention to life. Just as the Modern movement rapidly became tedious because its proponents reacted too often to one another's work rather than the whole of life around them, so M & S drama seems all too often to be produced by people who have been observing not life but merely other television series.

Good drama keeps on surprising you by showing human attributes which are fresh and striking yet entirely credible judged against your own experience. Watching a drama by Shakespeare or Michael Frayn you know that the authors have been keeping a sharp eye on their fellow men. Watching *Boon* or *The House Of Eliott* you are more likely to think "I know exactly what's going to happen now because I've seen umpteen other drama episodes like this".

Of course Marks and Spencer suits the British very well, and M & S drama brings the broadcasters the sort of ratings (15m for *Casualty*, 14m for *London's Burning*, 10m for *House Of Eliott* in the current BARB figures) which they could not normally expect from more individual drama. But as we buy our respectable knickers and watch our dependable series we should perhaps remember the sort of frills we are missing.

Rupert Frazer and Louise Lombard in 'The House of Eliott'

Opera/Max Loppert

Die Frau ohne Schattten

Die Frau ohne Schatten can seem a masterpiece, or a grossly overblown piece of musico-dramatic manufacture, the last word in (and gasp of) late-Romanticism, with means and ends troublingly out of balance. It was the most ambitious and most time-consuming act of operatic collaboration between Richard Strauss and Hugo von Hofmannsthal. The composer himself, towards the end of the its gestation, had begun to entertain serious doubts about its grandiose scale and substance: he was already yearning (in the words of Michael Kennedy's admirable Royal Opera programme note) "to strip off his Wagnerian armour".

The new Covent Garden production realises both the music and the libretto with glowing colour, lightness of touch and texture, a picturesqueness of conception that avoids both triviality and strenuous late-20th-century relevance-seeking. It seems to frame a touchingly simple, heartfelt statement of belief in the opera as a unified masterpiece; and its conviction proves contagious. Indeed, for the first time I derived reward from almost an entire performance, not just particular sections and paragraphs.

For this the team of Bernard Haitink (conductor), John Cox (producer) and David Hockney (designer) deserves praise individually and corporately; but it is, as it should be, the conductor who stamps the whole performance with its peculiar radiance of style. The characteristic of Georg Solti's *Frau* – he was the first conductor (in 1967) of the previous Covent Garden production – was its lightning-flash brilliance of sound and thunder-peal ferocity of rhythmic drive, which suited some portions of the score far better than others.

Here, a tender, unforced musicality seems to draw out the genuineness of inspiration in the moments of solemnity and repose, reflecting the candour as well as the richness of Strauss's melodic and harmonic language. The Wagnerian armour is not stripped off, but neither does it prove overburdeningly heavy. There is Brucknerian innocence in the chorale-elements of the first-act close, Mahlerian clarity of line in the accompaniments to the arias of the Emperor and Empress, and an approach to the darker, wilder sounds and episodes that, though lacking nothing in muscle-power, wholly avoids melodramatic inflation.

Even the carolling sweetnesses of the many-voiced Happy End, usually the sticking point in any account of the opera, flow out with redeeming freshness. This *Frau*, expertly played, finely prepared and balanced (and a good deal less cut than previously in this theatre), is Haitink's first: it counts as one of his most resplendent London achievements.

Hockney, working with the costume designer Ian Falconer (serendipitous *Frau* surname!), concentrates on fairy-tale fantasy, on South Sea Isles opulence; exquisite distinctness of line and quirky vividness of detail provide the disciplining force. The succession of cloths and cutouts rising and falling, with backdrop colours warming to hues of oriental gorgeousness, seems to show creative kinship with the best of Disney, and with such flights of exotic studio fancy as *The Thief of Baghdad*.

The most spirit-lifting episodes are those of the "upper world": on Monday the effect down below was sometimes bold but less exactly judged. The candy-stripe patterns of the dyer's hut look brighter in photograph than on stage – altogether, the lighting, which often gives the Woman a visible Shadow, needs refining. Much of the transformation-magic is disappointing (visible wires, tame flood, unimposing stone-Emperor); Act 3 has a surprisingly rumpled look.

Cox's staging works efficiently within these limitations. Apart from the suggestion of intriguing troubled warmth between Barak and his wife early on, he manages relatively little in the way of character-focussing, or what the Germans call *Personenregie*: the cast, made up of mainly experienced international Straussians, is not a unified ensemble. One feels that the show as a whole is not yet quite tuned (it is shared with the Los Angeles Music Center Opera, and will doubtless be re-worked there). But already its airy, warming beauties draw the sting of detailed criticism.

Two of the leading quintet reach the grandest Straussian level. In the title role Anna Tomowa-Sintow has only one fault: it is hard to believe this fine figure of a mature and womanly soprano lacks anything at all, least of all a shadow. Her voice, in prime condition, fills out the lines with a natural amplitude that betokens a wonderful directness of stage personality; I love her uncloying tenderness in the little scene with Barak, and the unmannered nobility of her demeanour in the Trial – the climactic spoken outburst, usually cut, is superbly handled. Her partner is the American mezzo Jane Henschel (*house debut*) as a Nurse of tireless, vibrant delivery, verbal wit, and deftly insinuating character: a wonderful account of a formidable role.

Franz Grundheber's Barak is unfailingly sympathetic, and firmly voiced, though with less than ideal breadth and depth of tone. Paul Frey (*Emperor*) sings with true musicianship – a blessing in any Strauss tenor – but somewhat palely and passionlessly. Of Gwyneth Jones's Dyer's Wife I find it difficult to write justly, especially since she has given such long, honourable service in the role. How does one convey the generosity, the almost heedless abandon with which she throws herself into it? And on the other hand, how does one fairly – and politely – describe the vagaries of her current vocal condition?

in repertory at the Royal Opera House until November 28

Theatre/Malcolm Rutherford

Elegies for Angels, Punks and Raging Queens

An immensely powerful performance is taking place at the King's Head theatre in Islington. Whether every night will be a potent as the first probably depends on the audience. In the end there are 33 characters on stage – a record for this theatre. Sitting and standing to capacity, the audience on Monday could only outnumber the cast by about three to one. And it is on this total proximity, almost identification, between performers and watchers that *Elegies for Angels, Punks and Raging Queens* depends for its force.

Do not be put off by the title. The operative word is elegies. The victims of AIDS (for that is what the piece is about) range widely and include a cute little girl with a pigtail, infected by a parent; what looks like a septuagenarian *charlady*; and a minister of the church who thinks it was best when they all stayed in the closet as well as the more obvious candidates. All suffer; all die.

Elegies achieves its effect by letting them come on one after another. When they have done their bit, they take their place back-stage as on the Quilt which commemorates AIDS victims in individual panels which has been publicly shown in Washington DC. The result is like a medieval tableau recording victims of the plague.

Yet it is not gloomy. If there is a criticism of *Elegies*, it is that there is an ambivalence about whether it is celebrating the good times that have been had, despite the consequences, or is a lament that they ever took place. The answer seems to be a bit of both, but that the suffering has brought a lot of unexpected people together. The only scene that is slightly out of place, but may just be meant as a parody, is a chant blaming it all on Presidents Reagan and Bush. Certainly this political complaint is not the central thrust.

Elegies is conducted in *rhyming couplets and is*, in parts, a musical. Some of the verse is crude: "Now that I have kicked the bucket, All I have to say is f-it." Much of it is effective: "What is it doctor, is it AIDS? His studied silence spoke in spades." The songs are uniformly good. "My Brother Lived in San Francisco" may be reminiscent of a 1960s hit that praised the same city, but the reference must be intentional and captures the change from flower people to sufferers.

The final song, "Learning to Let Go", which means learning to die in peace, is sensational and is encored several times over. The show is very American. The principal influences come from California and New York City; so does the tinge of sentimentality. But it is convincingly played here as if Britain has the same problems of pain and the need for sympathy. That is how the audience took it. Elegies is the right word.

The piece is written and directed by Bill Russell and the music is by Janet Hood. It is worth seeing alongside Steven Sondheim's *Assassins* at the Donmar Warehouse. Both are about dancing with death, yet both have a peculiar vitality. Between them they show new and serious openings for musical theatre.

King's Head Theatre Club, Islington, London N1. (071) 226 1916

The operative word is elegies: scene from Bill Russell and Jane Hood's musical

INTERNATIONAL ARTS GUIDE

BARCELONA

OPERA
Edita Gruberova sings the title role in Anna Bolena at Gran Teatre del Liceu on Sat and next Wed. Richard Bonynge conducts a staging by Giancarlo del Monaco (412 3532)
CONCERTS
Uwe Mund conducts an orchestral concert at the Liceu on Fri at 21.00, with Alessandra Marc soloist in Strauss' Four Last Songs and Ramon Coll in Brahms' First Piano Concerto (412 3532). Alexander Gibson conducts the Barcelona City Orchestra on Fri and Sat evening and Sun morning at Palau de la Musica. The programme includes Strauss' Burlesque and Franck's Symphonic Variations (Josep Colom) and Sibelius' Fifth Symphony. Next Thurs: New London Consort (268 1000)
THEATRE
Alan Ayckbourn's play Absurd Person Singular runs from Nov 24 to Jan 24 at Teatreneu. Information and booking for cultural events through Caixa de Catalunya from 08.00 to 14.00 (310 1212)

COLOGNE

CONCERTS
Tonight's concert at the Philharmonie is given by the Dubliners. Sun morning: Tippett's A Child of Our Time. Sun *afternoon: Mendelssohn's Elijah.* Sun evening: Herbie Hancock and friends pay tribute to Miles Davis. Mon: Tokyo String Quartet. Tues: James Galway is soloist with Württemberg Chamber Orchestra. Nov 29: Abbado conducts Berlin Philharmonic (2801)
OPERA
Marco Arturo Marelli's new production *of Henze's Der Prinz* von Homburg can be seen tonight, Sat and next Tues and Fri at the Opernhaus, with a cast including Helga Dernesch and Eirian Davies. Fri and Mon: Entführung. Sat, next Wed and Sat: Der fliegende Holländer with Monte Pederson and Mechthild Gessendorf (221 8400)
THEATRE
A new production of John Ford's 'Tis Pity She's a Whore, directed by Michael Bogdanov, has entered the Schauspielhaus repertory, which also includes Strindberg's Dance of Death and Dürrenmatt's The Visit (221 8400)

COPENHAGEN

***Royal Theatre** 19.00 Der* Rosenkavalier, also Sat. Fri: new production of four Balanchine works. Next Tues: Nielsen's opera Maskarade. Next Wed: Il barbiere di Siviglia. Next Thurs: Carmen. Flemming Flindt's Nutcracker production begins a month's run of performances on Nov 27 (3314 1002)

FRANKFURT

CONCERTS
Tonight's concert of works by *Mendelssohn and Suppé at the* Alte Oper is given by Katowice Radio Orchestra and Frankfurt Concert Chorus. Tomorrow and Fri: Pinchas Zukerman directs Frankfurt Radio Symphony Orchestra in works by Bach, Schoenberg and Hindemith. Fri in Mozart Saal: Dmitri Hvorostovsky song recital. Sat: Evgeny Svetlanov conducts *Russian State Symphony* Orchestra in Tchaikovsky's First Piano Concerto (Nikolai Lugansky) and Rakhmaninov's Second Symphony. Sun: Midori violin recital. Mon: Bob Geldof. Next Wed: Herbie Hancock. Next Thurs: Houston Symphony Orchestra. Dec 1: Abbado conducts Berlin Philharmonic (1340 400). Sat at *Jahrhunderthalle: Michel Plasson* conducts Bamberg Symphony Orchestra in Franck's D minor Symphony and Fauré's Requiem (3601 240)
OPERA/DANCE
Tonight's performance at the Opernhaus is Die Zauberflöte (also Sun). Tomorrow: Die Fledermaus. Fri and Mon: William Forsythe's ballet The Loss of Small Detail. Sat: La traviata (236061)
THEATRE
Tonight's performance at the Schauspielhaus is Lorca's Dona Rosita. Tomorrow: The Merchant of Venice. Next week: Arthur Schnitzler's Undiscovered Country (2123 7444).

HAMBURG

MUSIC
Staatsoper Tonight: Don Carlos. *Tomorrow and next Tues: Cosi* fan tutte. Fri and Sun: Bob Wilson's production of Parsifal (also Dec 13). Sat: Don Pasquale. Next Wed: Hansel and Gretel (351721)
Musikhalle Tonight: Peter Schneider conducts Hamburg State Philharmonic Orchestra and Singakademie in Brahms' German Requiem (351721)
THEATRE
Deutsches Schauspielhaus Tonight and Sun: Arthur Miller's Death of a Salesman. Tomorrow and next Wed: Thomas Bernhard's play Die Macht der Gewohnheit. Fri and Tues: Maxim Gorki's Vassa Sheleenova. Sat: Shaw's Heartbreak House. Mon: Herbie Hancock and friends pay tribute to Miles Davis (248713)
Thalia Theater Tonight, tomorrow and Sun: King Lear directed by Jürgen Flimm. Sat: Beckett's Endgame (322666)

LEIPZIG

Schauspielhaus Tonight's performance by Théâtre Jel of Budapest opens Leipzig's experimental theatre festival. Over the next four days, eleven productions from seven countries will be staged at various venues, culminating in a gala on Sun in which John Neumeier and Marcia Haydée will dance Béjart's The Chairs (792 2162)
Opernhaus Tonight: Johann Strauss' Eine Nacht in Venedig. Tomorrow: Il barbiere di Siviglia. Fri and next Wed: choreographies by Uwe Scholz. Sat: Les Contes d'Hoffmann. Sun: first night of new production of Werther with David Rendall in title role. Next Tues: Die Zauberflöte (7168 273)
Gewandhaus Sun: Gewandhaus Quartet plays works by Mozart and Brahms. Next Tues: Daniel Nazareth conducts MDR Symphony Orchestra in works by Poulenc, Honegger and Janacek. Nov 26, 27: Leopold Hager conducts Gewandhaus Orchestra. On the next two Saturdays at 15.00, *members* of Gewandhaus Orchestra take part in performances of Bach cantatas at the Thomaskirche (7132 260)

LYON

● Tomorrow, Fri and Sat in Auditorium Maurice Ravel, Mishiyoshi Inoué conducts *Orchestre National de Lyon* in works by Rossini and Brahms. Michel Dalberto is soloist tomorrow and Sat in Mozart's Piano Concerto No 24, and Benoit Cambreling plays Thärichen's Timpani Concerto on Fri. Next Thurs and Sat: Edith Wiens is soloist in songs by Schubert and Mahler's Fourth Symphony (7860 3713)
● Barbara Hendricks and Gabriel Bacquier star in five performances of L'elisir d'amore, opening Dec 1 at Theatre du Huitieme, 8 ave Jean Mermoz (7828 0960)

NEW YORK

THEATRE
● My Favourite Year: a new musical based on the film of the same name. In previews (Vivian Beaumont, Lincoln Center, 239 6200)
● Irish Repertory Theatre Company in two one-man shows: Joyicity, based on the writings of James Joyce, and Frankly Brendan, taken from the works of Brendan Behan and Frank O'Connor. This week only (Actors' Playhouse, 100 Seventh Ave S, 691 6226)
● Jelly's Last Jam: the music of Jelly Roll Morton, self-proclaimed inventor of jazz, plus an unsparing portrait of Morton himself (Virginia, 245 West 52nd St, 239 6200)

UTRECHT

Vredenburg 20.15 Krystian Zimerman piano recital. Sat: Netherlands Radio Chamber *Orchestra plays works by Fauré*, Debussy, Roussel and Mozart. Sun: Hans Vonk conducts Radio Philharmonic Orchestra in Bruch's Scottish Fantasy (Christiaan Bor) and Schumann's Third Symphony. Next Tues: Endellion Quartet. Next Wed: Hartmut Haenchen conducts Netherlands Chamber Orchestra and Choir in sacred works by Penderecki and Bach family. Nov 29: Evgeny Svetlanov conducts Russian State Symphony Orchestra (314544)

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CNN
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Pinning it on the banks

IT IS easy to sympathise with the public in its irritation over the failure of banks and building societies to pass on the full benefit of recent cuts in interest rates. It is less easy to go along with the government's inclination to put pressure on financial institutions to pass on that benefit intact. The excuse for such populism, spelled out in Mr John Major's speech to the Lord Mayor's banquet on Monday, is that it will help promote economic recovery. Yet in practice it is much more likely to do the reverse.

The public's grievance against the clearing banks rests on the suspicion that it is being required to pay for the banks' past errors of judgment. Up to a point the public is right. The decline in banking profitability since the mid-1980s owes a great deal to such aberrations as lending to developing countries, loans to over-extended property companies and ill-judged support for such over-ambitious entrepreneurs as the late Mr Robert Maxwell.

But the banks' aberrations were also a reflection of the government's monetary policy; and the decline in their margins was made worse by the increasingly global nature of the competition in banking and the piecemeal liberalisation of the clearing banks' business. Spreads in both corporate lending and mortgage lending were squeezed. Nor should it be forgotten that the private customer enjoyed great benefit from the growing competition for deposits, where interest on current accounts helped depress bank margins even further.

Wrong priorities

The real problem is that both the government and the banks appear to have their priorities wrong. In the longest recession since the second world war, in which an overhang of debt poses a significant obstacle to recovery, the main objective should be to restore the capital base of the banks and building societies so that they are able to finance an upturn. The building societies have no immediate access to outside capital, while the banks' ability to tap their shareholders for fresh equity is, at the very least, questionable. It follows that the only sure-fire means of bolstering capital is through retained profits.

That message has been grasped by the Federal Reserve in the US, which has made bank profits a more or less explicit target of monetary policy. Yet the Fed's interest rate cuts were arguably too timorous to achieve the desired end, as President Bush knows to his cost. The lesson for Britain, which the chancellor has yet to take fully aboard, is that interest rates have to fall farther to achieve a given degree of monetary stimulus than would be the case in a normal economic cycle. Nor is the threat to sterling from such cuts as great as feared, since forward interest rates already discount much of the currency risk.

Dividend policy

The banks, meantime, are perpetuating the habits of an earlier decade, most notably in relation to dividend policy. Clearing bank dividends traditionally were covered three times by earnings. Today they are either uncovered or inadequately covered. Yet, to keep institutional shareholders sweet, the banks have been tempted to maintain or increase the payout at the expense of their reserves at a wholly inappropriate juncture.

The time has come for greater realism. The institutions should recognise that their substantial investment in the clearing banks stands to be enhanced, not undermined, by more prudent dividend policies. The banks should recognise that they are sending a damaging signal to the capital markets by leaving so many of those responsible for the disasters of the 1980s in top positions. Barclays, to name the most conspicuous case, has appointed a top executive who was associated with the bank's period of over-expansion to the dual role of chairman and chief executive. In banking, of all businesses, the existence of checks and balances is crucially important and should extend to the structure of top management and the board.

Bankers are admittedly not alone in showing reluctance to accept responsibility for past error. Whitehall is, *par excellence*, the place where the buck no longer seems to stop anywhere. But if failure is so conspicuously rewarded, whether in banking or government, who can blame the public for its resentments?

Time for a purge

THE LATEST revelations of South Africa's commission of inquiry into political violence represent the gravest challenge yet to the integrity of President F W de Klerk and the negotiation process itself. Allegations of government complicity in political violence have never been in short supply; but hard evidence has so far proved scarce.

In the past it has been possible to accept President de Klerk's repeated denials of state involvement in the so-called "third force". This murky group of right-wing extremists is conducting a campaign of assassination and sabotage to weaken the African National Congress and inflame its already tense relations with the rival Inkatha Freedom Party.

Credulity has become increasingly strained, however, as more information surfaces. It ranges from allegations linking a serving senior military officer with the assassination in 1985 of Mr Matthew Goniwe, a leading government opponent, to the discovery in London earlier this year of two members of South African intelligence, apparently set on silencing a whistle-blowing colleague.

Yesterday credulity vanished. Judge Goldstone's latest disclosures do not – so far – involve murder. But they do reveal at the very least a sordid dirty tricks campaign against the ANC. It is not the work of one or two rogue elements in the security services – the excuse which Mr de Klerk continues to offer, despite evidence from the commission of top-level sanction for the plot. The campaign was the responsibility of what the commission described as a large operations unit of military intelligence. Among its employees was a former police officer with two convictions for murder, apparently selected on the recommendation of Mr de Klerk's chief of staff for intelligence.

Greater involvement

It remains hard to accept that Mr de Klerk personally sanctioned these tactics. But in the light of the latest information, he must now acknowledge high level involvement. Unless he acts, he will imperil the negotiating process he initiated. As Judge Goldstone made clear on Monday, "no successful and constructive multi-party negotiations are likely to be held in the present climate of mutual suspicion and distrust... No investment will take place until a democratic and peaceful climate has been created."

If Mr de Klerk is to restore his credibility, he should first acknowledge that state involvement in political violence is greater than he realised. He must then give greater powers and more support to the commission, which lacks the resources for its task. The UN secretary general was so persuaded of the centrality of the issue of violence that he recommended to the Security Council in August that the Goldstone commission investigate the army and police, as well as Umkhonto we Sizwe (the ANC's military wing) and other political armies in South Africa. The secretary general urged Pretoria to provide finance for such inquiries, and government agreed in principle that they should take place.

Speedy response

Resources have not been forthcoming. Hundreds of files discovered during the recent raid cannot be investigated for lack of funds. Judge Goldstone also complains that he has not had sufficient co-operation from the parties concerned to do his job properly. The international community can at least assist with resources. British legal experts and police officers have already played an important role in the investigation of Boipatong. Judge Goldstone's appeal for further help deserves a speedy response.

Armed with the evidence, Mr de Klerk should initiate a purge of the security forces. No one underestimates the scale of this task. The extent and influence of the right-wing in the services is far from clear. There is no certainty that, should it reach the stage of confrontation between reformers and conservatives in the military ranks, the latter will be defeated.

Mr de Klerk's resolve should be stiffened by the realisation that there is no alternative. Unless he purges the rotten elements in the security forces, they will destroy the transition to democracy which he himself launched some three years ago.

Falling prices and a world glut have led coffee producers and consumers to seek a new quota pact, writes **Christina Lamb**

A storm in a coffee cup

For the past two years, the world's coffee producers have been forced to swallow a bitter brew. Plummeting prices and excess supply threaten the livelihood of more than 25m coffee workers from Brazil to Indonesia. The product, once known as green gold, is losing its lustre as the economic mainstay of many developing countries.

An experiment with the free market has left the industry, with total sales estimated at $34bn a year and a daily consumption of 2bn cups, in its worst crisis for decades. After the collapse in 1989 of the International Coffee Agreement – a pact between producers and consumers controlling exports to ensure price stability – a world glut caused coffee prices to slump to almost a third of the level of the late 1980s. Most growers have been selling at well below cost for the past two years.

The current state of the industry is so serious that growers, exporters, processors and buyers – led by Brazil, the largest producer, and the US, the largest consumer and processor – have put aside competing interests to come to the negotiating table. Following a first round in September, crucial talks will begin next Monday at the International Coffee Organisation (ICO) in London to try to conclude a new coffee pact, re-establishing quotas to limit exports and stabilise prices in an admission that the free market has not worked.

Hitting 22-year price lows in August of less than 50 cents a pound in New York, coffee has been overtaken by sugar as the developing countries' main earner after oil.

Unlike oil, however, coffee supply cannot simply be turned on and off, so growers in the 50 main producing countries have to sell at the lower prices or stop production. Their ability to boost prices through holding back supplies is weakened by the considerable stocks in the hands of consuming countries. The results are abandoned plantations across the developing world and out-of-work coffee pickers, whose anger threatens to spill over into social unrest. In some countries, such as Colombia, the principal alternative crop is the coca leaf, the raw material of cocaine.

The outcome of the talks is keenly awaited, particularly in Brazil, which has been the biggest producer almost continuously since the 1760s when Cappuchin monks in Rio de Janeiro began growing seeds smuggled from French Guyana.

Mr Jose Dias de Goveia, a 76-year-old farmer in Pocos de Caldas, Brazil's coffee heartland, says: "I've been in coffee all my life but the last four years have been the worst I've ever seen. We're talking survival." Production costs are $65 a 60-kilo bag, but he is forced to sell at $40. He has cut staff to a third, reduced land under cultivation from 500 to 400 hectares, and is producing what he calls "ecological coffee", because he cannot afford fertilisers.

In southern Minas Gerais, the world's most productive coffee belt, such stories are common. Growers are abandoning coffee, which has always been a volatile commodity and sensitive to climatic changes, for eucalyptus, nuts and passion fruit. On many farms cattle graze between the remaining coffee bushes. In the past three years the number of coffee bushes in Brazil has fallen from 4.2bn to 3.2bn. Only 20 per cent are thought to be properly cultivated; quality is suffering and thus flavour is deteriorating because coffee prices are too low for growers to invest in fertilisers and technology. The current crop is expected to yield fewer than 20m bags compared with 43m in 1987-88.

Although these figures are significant, the impact of the coffee price slump is even greater on many smaller coffee-producing nations, where coffee is the principal foreign exchange earner. Growers have little alternative but to turn to cocaine production to sustain their families. In Colombia, disenchanted pickers are raw fodder for recruitment into cocaine production cartels.

In Brazil, industrialisation has diminished coffee's contribution to export earnings to less than 4 per cent this year compared with 21.5 per cent 15 years ago and 50 per cent in the early 1960s. However, coffee cultivation remains a labour-intensive business and Mr Christian Ottoni, head of the Pocos do Caldas Rural Union, warns: "The social consequences of the price collapse have been devastating." He estimates that 1.5m to 2m of the 10m workers dependent on Brazil's coffee sector are unemployed and adding to the growing number of slum-dwellers in the cities.

Ironically, it was Brazil that scuppered the coffee accord. It was angered by US attempts to reduce its export quota to allow Colombia and Central America, which produce the milder varieties of coffee favoured by Americans, to increase their exports. The Bush administration was motivated by a determination to provide economic support for these countries in return for co-operation in the war against drugs.

The Brazilian Exporters Federation (Febec), which had been convinced that the world's largest producer could only stand to benefit from a free market, has had its hopes shattered as the country has seen coffee income fall from $2.5bn a year to little more than $1bn since 1989. Despite the glut on world markets, Brazil is struggling to fulfil its export commitments this year of 13m bags. It is reportedly even importing low-grade coffee to meet the requirements of its home market – now the second-largest in the world at 10m bags. By contrast, Colombia more than doubled its crop since 1989 to 18m bags and has seen earnings increase to match those of Brazil.

Brazil's growers put part of the blame on disgraced President Fernando Collor's policy of deregulation. While Colombian growers have received government subsidies and support in technology and marketing since the pact collapsed, the Brazilian government in 1990 closed its Coffee Institute, which controlled supply and sales. The government's curbs on subsidies for agriculture meant growers had no access to cheap finance, domestic prices were subjected to successive price freezes and exports were hit by an overvalued cruzeiro. The Brazilian coffee sector was also discredited internationally by charges in New York of insider trading in coffee futures – after the government's sudden suspension of coffee exports in March last year – allegedly linked to the corruption scandal which caused Mr Collor's downfall last month.

But Mr Luiz Sergio de Paiva, from Brazil's National Coffee Council, says most of the blame for the current crisis must be laid at the door of the small group of processors which dominates the market. "It was not a free market at all," he says, pointing at a map on his wall. "All the world's coffee grows between the tropics of Cancer and Capricorn in the third world and thus lacks planning and development. The consumers are all in Europe and the northern hemisphere. Five big first-world companies process half the world's coffee. In a so-called free market it will always be producers that lose and processors that gain."

With many Febec members facing bankruptcy, the federation has yielded to growers' demands and is backing a new agreement. "We did not expect that being without an accord would be so hard or so long," admits Mr Oswaldo Aranha Neto, Febec president.

But coffee diplomacy is a delicate business. The International Coffee Organisation includes 50 coffee-exporting nations (representing 97 per cent of world production) and 21 importing countries (responsible for 80 per cent of consumption). Negotiations bring together countries as diverse as Germany, Cuba, Vietnam and Ethiopia, and previous talks have been acrimonious.

The producers might seem to be in the weak position. Mr Alexandre Beltrao, head of the ICO, estimates that producers have been losing $4bn-$5bn a year worldwide since the accord collapsed. But the tables may soon turn. The price has started to recover quite rapidly over the past few weeks as Brazil has admitted its crop is lower than expected, and now stands at more than 70 cents a pound. Consumers and processors are beginning to be worried about a possible dearth of supplies, particularly as it takes four years for a bush to start producing beans.

Industrialists worry that the low prices have caused quality to drop even further. Mr Beltrao points out that the income lost by producers "is money which should have been directed towards investment". The price recovery is generating renewed optimism among producers that the sector may be poised for revival, rendering a pact academic. But prices were at 130 cents when the accord collapsed and Mr Beltrao says: "Prices have not risen enough to dissuade anyone of the need for a new accord. I think by the end of the year we'll have a framework agreement."

Negotiations on a pact may, however, be affected by a change of administration in the two main participating countries. The new Brazilian president, Mr Itamar Franco, is from Minas Gerais, which produces half of Brazil's coffee, and is thought to be sympathetic to the idea of an accord. The position of Mr Bill Clinton, US president-elect, is less clear, though Mr Jorge Cardenas, of the Colombian National Growers Federation, says he is not worried that a change in the White House means the US will cool to the idea of a deal.

In September a serious hurdle was overcome with agreement on the concept of universal quotas, covering exports of producers to all destinations rather than just to ICO members, and guaranteeing that exports offered to member countries would be on at least as good terms as to non-members. Under the previous agreement, producers sold surplus supplies to non-members at cheaper prices, which then sold the coffee on to member countries.

The remaining obstacles include a system for controlling shipments, agreeing on prices and quota sizes. The issue of selectivity will also have to be resolved to allow consumers to obtain the types of coffee they prefer, such as robusta or the milder arabica.

Mr Beltrao stresses that the return to a pact would not mean the sector had lost its taste for the free market. "I don't see a pact as an alternative but as a five-year transition period," he says.

Whether the worst is over for those whose livelihood depends on coffee rests largely on the outcome of this month's negotiations. Although a new pact might push up prices for coffee lovers, the hope is that the ensuing price stability and quality would act like a caffeine shot to stimulate consumption above the 72m bags at which it has stuck. Mr Paiva warns: "We must remember that coffee is not the only drink in the world."

A lot less coffee in Brazil

The top overall consumers

1991	60kg bags (million)	Kg per capita
US	18.89	4.52
Germany	10.48	7.92
Brazil	9.20	3.78
Japan	6.00	2.92
France	5.56	5.84

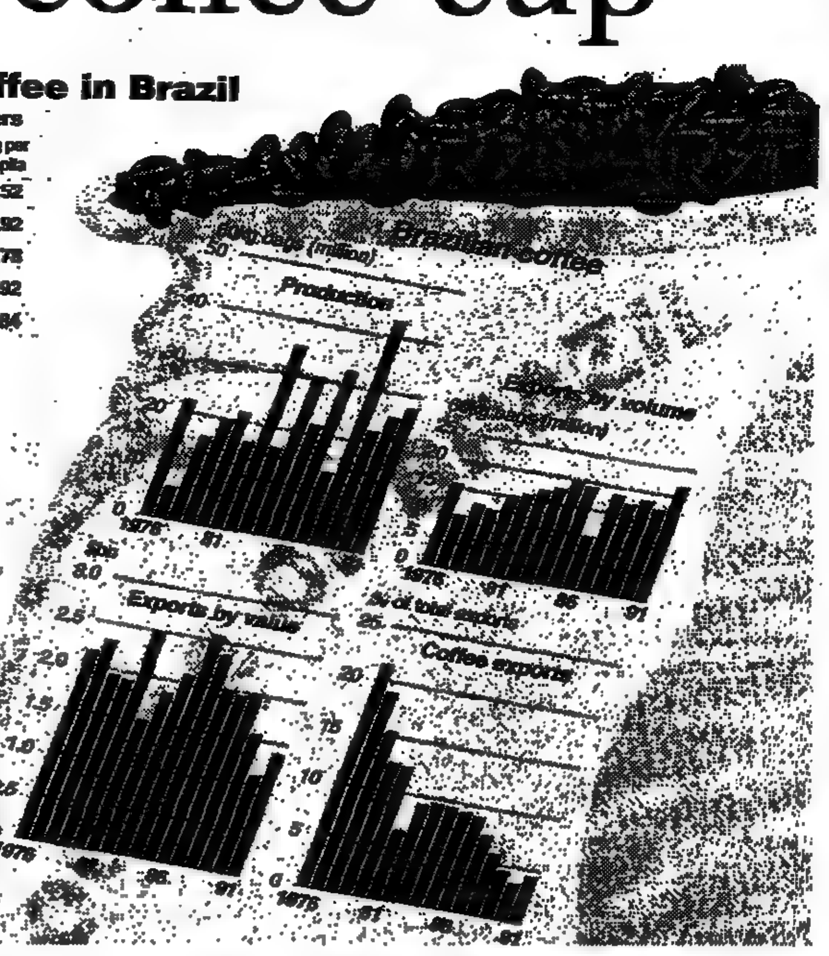
The top drinkers

1991	Kg per capita a year
Finland	11.51
Sweden	11.13
Norway	10.86
Denmark	10.59

The top exporters

Coffee year 1991/2	60kg bags (million)
Brazil	21.74
Colombia	15.42
Indonesia	4.82
Ivory Coast	3.57
Guatemala	3.29
Mexico	2.96
Costa Rica	2.27

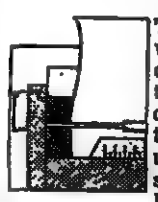
Source: ICO



PERSONAL VIEW

Omissions on options

By Michael Cranna and John Samuels



The present controversy concerning directors' remuneration has neglected one aspect of the total package: executive share option schemes (Esops). For schemes to be effective, they must tie directors' interests to earnings per share (EPS) growth, ensuring the decisions they make are in the best interests of shareholders.

Unfortunately, our research indicates not all is what it should be in the way some companies operate their schemes, and this is often hidden by the poor levels of disclosure in annual reports.

The four issues we have identified are discounting, voluntary lapsing, pre-emption and the lack of adequate disclosure of information pertaining to share option schemes in company annual reports.

It is possible to discount the price at which directors can buy options by up to a limit of 15 per cent on the market price on the day the option is granted, the argument being that it encourages executives to establish an equity interest in the company. Yet if the object of an Esop is to motivate directors to work towards increasing the EPS of the company, it seems curious to award the director an immediate 15 per cent discount for achieving nothing.

The National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI) have raised the problem of pre-emption. By allowing directors and other employees to buy share options, the percentage of the total issued share capital held by other shareholders falls, and this represents a steady dilution of their holding.

Then there is the problem of voluntary lapsing. Under most Esops, directors are permitted to lapse voluntarily any grant of options they have been allocated. Assuming the directors have not used their full allocation of options, the implication is that, if they manage the company poorly and the share price falls, they can lapse their options and be reallocated another tranche up to the balance of their allocation at a lower exercise price.

If exercised at the right time, this would render relatively *greater* profits, and invalidate any notion of incentive-based performance tied to a steadily growing EPS. The directors should be able to show that profits are derived from a healthier company than when the options were initially granted, not from a randomly fluctuating share price.

There have also been calls for more appropriate explication in the annual reports. In the majority of annual reports, share option prices and the number of share options held by directors are given in different tables, making it impossible to calculate who owns what and how much they are making. Furthermore, options are not counted as a cost to the company. Studies in the US have shown that the cost of Esops if charged against profits would reduce them by an average of 3 per cent and sometimes by up to 10 per cent. Indeed, the US Securities and Exchange Commission has tightened regulations pertaining to disclosure requirements for Esops.

However, issues of executive remuneration have little impact on the making of investment decisions, and this has been reflected in the lack of emphasis that the NAPF and the ABI have placed until recently on these kinds of issues. These organisations increasingly recognise the need to improve ways of measuring executive performance, and have now set out detailed guidelines concerning Esops which go some way in addressing the issues of discounting, pre-emption and lapsing. They have also recognised that EPS as a measure of company performance is vulnerable to manipulation and other measures should be incorporated.

However, the information on executive remuneration rarely trickles down to the fund managers who ultimately should be the monitors of companies' remuneration packages. Moreover, they are often unconcerned or ignorant of corporate governance issues, and rarely use their proxy votes anyway. This demonstrates the need for the ABI and NAPF guidelines to be dovetailed with any conclusions the Cadbury Committee on corporate governance might reach when it publishes the conclusions next month. Any overall policy should be rigorously implemented by the institutional investors, specifically at the fund manager level.

Otherwise there will be a danger that directors will be perceived as discerning no limits on their remuneration. This perception may be exacerbated because of the unsatisfactory levels of disclosure in annual reports. The Institute of Directors takes the view that the scale of risk that directors carry is such that any compensation is insignificant compared with the scale of economic activity. But can this view be used to justify curtailing the incentive element of an incentive-based emolument by the discounting and lapsing of options, or as a recent study* shows, *increasing* executive remuneration against collapsing profits?

This article is based on work done by the Entrepreneurship Group of the Centre for Economic Performance at the London School of Economics.

**The Disappearing Relationship Between Directors' Pay and Corporate Performance, Centre for Economic Performance.*

Edward Mortimer

Wake up, Europe

The EC is once again famous for its internal divisions and its failure to develop coherent international policies

FOREIGN AFFAIRS

Three or four years ago it was great to be European. People from other continents treated you with respect, interest, even envy.

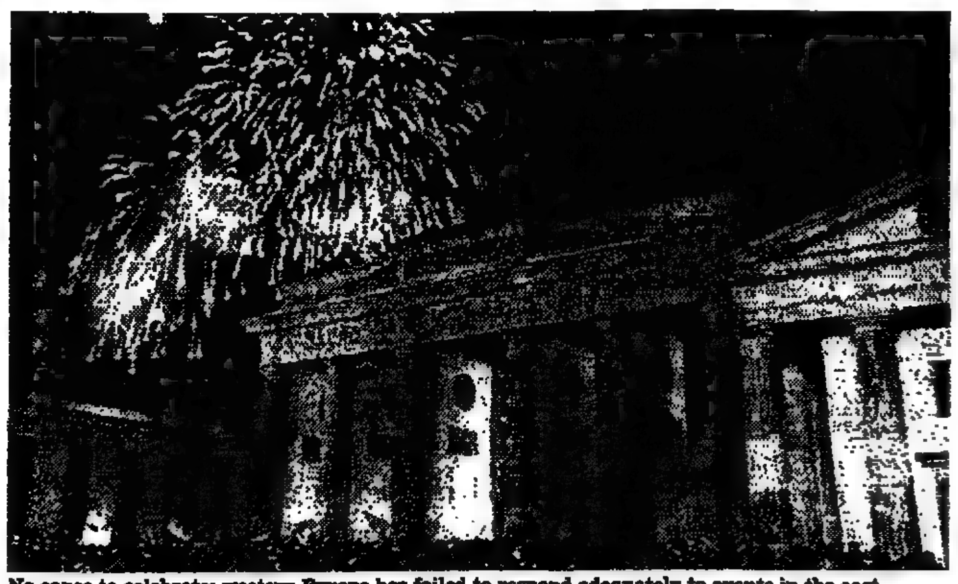
Americans and Japanese asked earnestly about "1992", meaning the completion of the single market. One could reassure them, with just a whiff of *noblesse oblige*, that their fears of "fortress Europe" were largely groundless, while privately hugging oneself with pride at the thought that they actually cared. And then there was all the excitement about change in the east. The collapse of east European communism was widely attributed to the contrast between its conspicuous economic failure and western Europe's success. East Europeans were eager to join or re-join the "Europe" to which they felt they belonged – the one represented and symbolised by the European Community. Bliss was it in that dawn to be alive, but to be European was very heaven.

Alas and alack. The picture is different now. It has become quite embarrassing to be European at a gathering such as the one I attended last week, the biennial "Atlantic Conference" organised by the Chicago Council on Foreign Relations, bringing together Europeans and North and South Americans. Believe it or not, this is 1992 and the single market is about to be completed. But that no longer seems to count for much. The EC is *once again famous mainly for* its internal divisions and its consequent inability to do anything constructive in relations with the rest of the world.

German unification, mismanaged economically for lack of political courage, has imposed deflation on the whole of Europe at a time of recession. The European Monetary System, from which realignments had been effectively phased out as a step towards a single currency, has contributed to rigidity at a moment when flexibility is needed, and two currencies have fallen out of it. The Maastricht treaty, intended to transform the EC into an economic and political union, has instead led to acrimony both between member states and within them.

Differences among member states and within the European Commission are generally held responsible for failure to conclude the Uruguay Round trade talks, and for the possibility of a trade war between the EC and the US.

Worst of all, western Europe has failed conspicuously to respond to the challenge of events in the east. I was invited to the conference to present a paper on the theme "Western Europe looks east: what role in central and eastern Europe?". What could I say? I presented once again my argument for a strategy aimed at extending the EC gradually eastwards by opening it up to all those states which can realistically aspire to associate with western Europe rather than with Russia, and at developing friendly relations between this whole area and the zone to the east of it within the framework of a pan-European security structure, based on Nato and the Conference on Security and Co-operation in Europe (CSCE). In other words, an "ever closer union" of Europe from Dublin to Lublin, within a broader security zone from Vancouver to Vladivostok; in economic terms, an integrated single market within a European free trade area.


No cause to celebrate: western Europe has failed to respond adequately to events in the east

I ran through my programme of economic, military, institutional and political measures aimed at realising this ambitious scheme, and found that they went down better than I expected – especially the idea that the various things being done for eastern Europe should be brought together in a multilateral, Marshall Plan-style "joint recovery programme", which would give recipient states an incentive to overcome their differences, and so give private investors greater confidence in the economic and political environment.

Some constructive modifications were suggested. It is vital, I was told, not to appear to treat Ukraine as "a Russian problem", because a Russo-Ukrainian conflict could be the most dangerous for the rest of Europe. Even within the narrower Europe a distinction needs to be made between economic issues, where the EC has to take the lead, and military ones, where a US role, through NATO, continues to be vital. And a distinction needs to be made between north-central Europe and the Balkans. The former is already the scene of promising economic and political developments and has hope of qualifying for EC membership around the end of the century. In the latter the only immediate issue is halting and preventing war.

The Community's capacity to develop any strategy for eastern European recovery seems to have collapsed

Unfortunately all this is based on a false premise. Western Europe is not "looking east". Not only has the EC not developed a strategy along the lines suggested, but its capacity to develop any strategy at all seems to have collapsed. Instead of finding ways to embrace and stabilise the countries suddenly released from communism, it has watched impotently while bitter ethnic and national conflicts resurface and degenerate into spreading violence. Here, too, the EC's internal divisions have caused paralysis and have been exacerbated as member states blame each other for the disasters in former Yugoslavia. Meanwhile, the influx of refugees exacerbates social tensions and stimulates the rise of xenophobic extremism at home.

No European leader has set out clearly for his electorate the nature of the opportunities and dangers which events in the east have produced for western Europe. As a result, it seems that none now has the authority to demand the sacrifices required from domestic vested interests, notably the farming and other producer lobbies, which oppose the opening of the west European market to the most competitive east European products: coal, steel, textiles and food.

To outsiders, western Europe presents a remarkably unattractive spectacle as 1992, supposedly its year of glory, draws to a close. We look like selfish children squabbling among ourselves, ignoring the problems of neighbours who, for the most part, are much worse off than us. At last week's conference, one US speaker condemned the "appalling lack of leadership and will" which Europe has shown in response to the Yugoslav crisis, while a South American referred to "a degree of autism", an insistence on repeating the same answers to radically new and different questions.

It looks increasingly likely that Maastricht, even if the right answer, is the answer to the wrong question. At the core of the treaty is monetary union, based on a plan drawn up before the events of 1989-91 transformed the whole geopolitical context, and of dubious relevance to the new and urgent problems in the east. Tacked on to it is the idea of a common foreign and security policy, which is indeed what the EC needs but which the treaty as signed would hardly make any easier to produce. But having got this far it would certainly be better to ratify the treaty and move on to more important business. As it is, the EC looks all too likely to spend another year discussing the decision-making process when what is needed is some actual decisions.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
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Fooled by own mirage of debt

From Mr John C O'Connor.

Sir, James Morgan suggests a magic debt mountain arose in east Germany (Finance and the Family, October 31) from a "predisposition to believe" gilded official data, which "started when the World Bank misguidedly attempted to create comparable national income figures for every country in the world". The bank was in the crowd that wrongly accepted what central planners said in the 1970s. But we broke away a decade ago to search for solutions – along a trail marked by a 1985 book, Dollar GNPs of the USSR and Eastern Europe, and this year's Historically Planned Economies (HPEs): A Guide to the Data.

I think Mr Morgan wrongly blames "assumptions about production and purchasing power" and presumes that "realising the absurdity...the bank never indulged in the same exercise again". The bank's concerns were more specific, mainly about data quality; and are being answered as HPEs join the bank and provide more detail, including purchasing power parities in the UN's International Comparisons Programme (ICP), etc. The alternative technique, relying on official exchange rates, looks more absurd at present for the former Soviet Union and some other HPEs undergoing radical changes in exchange regimes. There is a strong case for a tempered use of ICP-type information in this context.

Returning to Mr Morgan's main theme, the mountain seems a conjurer's mirage once *it is described as internal* rather than foreign debt. As holder as well as issuer of such debt, the East German government seems only to have fooled itself. It is hard to see much role there for bank data, particularly when we corrected our mistake so long ago.

John C O'Connor,
chief, socio-economic data division, international economics department, World Bank, 1618 H Street, NW, Washington DC 20433

Wage bargaining should ignore devaluation-induced inflation

From Prof Ronald Dore.

Sir, The prime minister's speech at Guildhall this week strongly supports the view that the government, if only by jawboning, has a role to play in holding down wage increases in the private as well as in the public sector. One useful contribution would be to seek to diffuse among all engaged on either side of the bargaining table an idea which has been commonplace in countries such as Sweden for a decade, but has little currency in British discussions.

It is this: RPI-plus is a perfectly reasonable starting point for wage bargaining in an economy with cost-plus-mark-up pricing. But there is inflation and inflation. The increase in the cost of imports brought by devaluation is something which makes the nation poorer. The fairest way of sharing that loss around is not to compensate in wage packets for that part of current inflation which can be ascribed to higher (sterling) import prices, and to confine compensation to the other part produced by the "spiral of justice" of ratcheting wages and prices. To make the distinction is not only fair; it also prevents devaluation giving a kick-start to inflation acceleration which will eventually require a more swingeing deflation to halt.

Of course the dread words "incomes policy" cannot be mentioned. NEDO is no more. We have no national forum as the Swedes have where principles such as this could be hammered out and exert some effect, however marginal, on fragmented bargaining outcomes. But might not a chancellor capable of nationalising 20,000 houses be bold enough to think of some modest initiative towards creating one?

Ronald Dore,
London School of Economics, Houghton Street, London WC2A 2AE

Wider case for industry

From Mr Mark Radcliffe.

Sir, It is encouraging that Mr Jackson's article ("The incredible shrinking industrial base", November 16) reaches the conclusion, albeit reluctantly, that we have to reverse the decline in UK manufacturing. However, I would like to push the case harder and remove his depression and reluctance.

If General Motors doesn't sell cars and consumers don't buy imports from Asia/Pacific manufacturers, Blue Cross-Blue Shield as health insurers will end up without the business and the jobs. Furthermore, we believe that up to about one-third of the jobs lost in UK manufacturing over the past decade represent sub-contracting of specialist services to specialist firms in everything from *security to catering, and that* for every job in manufacturing there is one in the service industries.

This is why we believe the CBI National Manufacturing Council initiative is vital to the whole of the UK and why manufacturing must win a larger share of today's highly competitive international markets.

Mark Radcliffe,
deputy director-general, CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU

Arms to Iraq: the complex objectives and high cost

From Mr David Sawers.

Sir, One moral of the Matrix Churchill affair is liable to be lost among the excitement about "cover-ups": if government departments believe they have a simple objective, such as increasing British exports, they are liable to behave foolishly. Mr Alan Clark appears to be doing little more than express a departmental view when he says his job as minister of trade was "to maximise exports despite guidelines which I regarded as tiresome and intrusive".

Prime ministers should ensure that ministers understand that the national interest, and therefore government policy, represents a balance between conflicting objectives and interests; and officials *should understand this fact.*

Simple objectives such as increasing UK exports are only appropriate as low-level objectives for low-level staff. Other considerations should be fed into the decision process before issues reach ministers; if they are not, the ministers should demand that they are.

Matrix Churchill represents a failure of leadership. Junior ministers and officials were allowed to work on the over-simple objective of maximising British exports because no superior told them otherwise; and the injection of other considerations usually came from junior foreign office ministers. The Foreign Office sometimes won the subsequent debates, where weapons were involved; but the guidance from above seems to have been that exports were always good. The prime minister and his cabinet should realise that they can only avoid repetition of such embarrassments if they work to more complex and adult objectives and ensure their officials do so too.

David Sawers,
10 Seaview Avenue, Angmering-on-Sea, Littlehampton, W Sussex

From Mr Colin Grant-Wilson.

Sir, Surely the real irony of the so-called Iraqi arms scandal *has yet to be aired.* Britain almost certainly did not sell the arms but in effect gave them to the Iraqis. The exports will almost certainly have had Export Credits Guarantee Department cover which will be called upon and, as there is virtually no prospect of Iraq every repaying all its international creditors, the arms were thus a gift. Hopefully I will be contradicted?

Colin Grant-Wilson,
Appletrees, Market Heath, Benchley, Kent TN12 7PB

OBSERVER

PM in bank note scandal

■ Paul Keating is the first Australian prime minister for years who can safely be cleared of debasing the currency – inflation has fallen to less than 0.8 per cent since he took over from Bob Hawke just under a year ago.

But defacing it is a different matter, and the federal police think they may be able to finger him on that score.

The alleged crime was perpetrated during a walkabout in North Queensland when Keating unwisely signed two A$5 notes at the request of a local artist. Now the artist is selling the notes for A$3,000 each, and the premier is being investigated under the Crimes (Currency) Act, which provides for imprisonment of up to two years.

If the case ever got to court, it could even cost the prime minister his job. Justice minister Michael Tate has promised that the case would be dealt with impartially.

Keating plays down the incident as summer nonsense. But there is some evidence that it was as much a political statement as a vote-catching exercise. The notes he signed were examples of the freshly issued A$5 note carrying the Queen's portrait in place of the 19th century pioneer pictured on the earlier design. Keating was one of many republican Australians who unsuccessfully tried to persuade the Reserve Bank to cancel the issue.

Safe as houses

■ The man from the Halifax has come up trumps. Congratulations to Gary Styles, senior economist at Britain's biggest building society, for winning Observer's "forecasting the forecast" competition.

Styles was the only entrant correctly to predict the Treasury's forecast of the two most important economic indicators: GDP growth for 1993 at 1 per cent and RPI at 3.25 per cent. He was not far off in predicting the current account deficit forecast at £13bn (actual forecast £15.5bn) – especially considering some Treasury watchers had the figure at £6.5bn. On consumer spending: Styles 0.5 per cent, Treasury guess 1.25 per cent.

Nor were we concerned that Styles predicted a 1 per cent contraction in fixed investment (answers up to plus 5.2 per cent but correct number 0.25 per cent) and a slightly too toppy manufacturing output increase of 1.75 per cent (Treasury on 1 per cent).

"I've got to get something right this year," chuckled Styles – whose own forecasts are 1.25 per cent for GDP and 4.5 per cent for RPI – on being told that he had won. The bad news is that he thinks the mortgage rate will be unchanged – at about 8.5 per cent – a year from now.

Graphic example

■ Only yesterday the FT was reporting how many companies illustrate their annual reports with graphs which flatter their performance.

Take Scottish Metropolitan Property, which was singled out because of the generous use of its thistle logo to symbolise its profit growth. However, Vivien Beattie of Southampton University and Michael Jones of the University of Wales concluded that there were limits to this sleight of hand – companies with declining performance tend to dispense with graphs. How right they were.

"I'm cutting your wages so I can spend my way out of the recession"

Scottish Metropolitan Property's latest accounts landed on Observer's desk yesterday showing a loss – and not a single graph.

Swiss society

■ For months, *le tout Genève* has been afflutter over the succession at Société Générale de Surveillance, the city's premier industrial company. Some speculated that the chairman, the formidable Elisabeth Salina Amorini, would herself take the chief executive's chair, soon to be vacated by a retiring Claude Goldberg. Others feared she might bring in one of her British friends from her days at Warburgs in London.

Such speculation has proved inaccurate. Salina has found someone who is not British and not herself to run the group, which provides inspection services and quality control tests for governments and companies around the world. Nevertheless, her choice, Thierry Chéreau, a Frenchman, at first sight looks a bit odd. Chéreau comes from Source Perrier, which had a rather large quality control problem of its own a couple of years ago.

But it turns out that he was part of the solution to that problem rather than its cause, having joined Perrier as chairman only a year ago. But he suddenly found himself redundant after the Swiss food group, Nestlé, took over Perrier last summer. Now he will get to know the Swiss after all.

Up and over

■ One clue to the recent decision by British insurers to exclude terrorism as a risk covered by commercial insurance policies is the sheer enormity of the loss arising from last April's Commercial Union bomb in London.

Hard to believe, but the Association of British Insurers now estimates the CU-related losses at £750m, a figure which exceeds the sum paid out for all terrorist damage in Northern Ireland since the troubles started.

Since the late 1960s the government has paid out around £850m to compensate property owners for damage. Losses peaked in 1976-77, when the payout amounted to £50m. After falling steadily to £15m in 1986-87, the bill last year amounted to £33m.

Sic and tyred

■ Having wounded the English language with the syntactical nonsense of a "Drug Prevention Week", the government yesterday allowed defence procurement minister Jonathan Aitken to deliver another blow. Announcing that outsiders would be allowed to bid to supply certain services, he said: "We have already contractorised 100 individual functions."

FINANCIAL TIMES
Wednesday November 18 1992

Police reports show the effects of a vindictive campaign in Croatia

Prosaic face of ethnic cleansing

By David White in Split, Croatia

BY THE STANDARDS of mindless barbarity that have been set in the former Yugoslav republics over the last year and a half, the recent incidents recorded in the south of the Krajina region might seem almost petty.

But, laid down in prosaic police reports, they provide graphic evidence of how a vindictive campaign of "ethnic cleansing" can be pursued under the noses of international forces in a United Nations Protected Area.

"A Croatian woman born 1929 stated that three men in uniform came to the field in front of her house and shot her cow. They loaded the cow on a trailer and went away," says a recent report by UN civilian police (Uncivpol) sent to monitor local police work in this Serb-controlled area of Croatia.

Another incident in the same village, Maovice, involved a 75-year-old Croatian woman. "Five armed men came to her house stole two wheelbarrows, two wall-clocks, washing powder and soap."

All the reports conclude by saying that the local *milicija*, which serves as a police force, had been informed and the case was being followed up. But the UN is almost powerless.

The same Uncivpol station described a robbery in the Vinalic area. "Six men, two in civilian clothes and four in local *milicija* uniform, came to a Croatian woman's house and threatened her with rifles.

They stole one colour TV and shot her dog. The six people came from the village of Certina. Before they left they told her to leave the village, otherwise she would be killed. Local *milicija* informed..."

In the village of Jezevic-Corici, "five men entered four houses owned by old Croatian people. They stole 700kg of wheat, 10kg salt, a washing machine, coffee, candles, eight hams and a table."

The reports are from Sector South – one of the four UN Protected Areas set up earlier this year after the ceasefire in Croatia – and from the adjacent "pink zone". This is additional territory the Yugoslav army had taken by the time the UNPAs were properly established.

The UN plan is to restore this "pink zone" step-by-step to Croatian authority. But no progress has been made towards this goal. Nor has the UN succeeded in its aim of "demilitarising" and disarming the protected area, where it has 2,300 troops.

Sector South forms part of the self-proclaimed "Republic of Serbian Krajina", and UN officials describe their mission there as "quite frustrating". Although neglected and economically backward, Krajina is strategically crucial since it virtually separates Croatia's southern Dalmatian region from the rest of the country. All main road and rail links pass through it.

Tension is particularly high at Drnis, in the "pink zone" to the south of the region.

Up to last year, Croats made up a large majority. But, according to UN officials, most have gone and Serb refugees from other areas have been moving into the empty houses.

A typical case reported by the Uncivpol's Drnis station reads: "On October 29 an old Serbian woman, aged 79, was threatened at night by four men in civilian clothes to leave her house in Badanj...She thinks that because she was married to a Croat, they may believe she is also a Croat. Local police informed. To be followed up."

Clinton to meet Bush in Washington

By Nancy Dunne in Washington

MR BILL CLINTON and his new home town get their first post-election chance to evaluate each other today when he flies to Washington for a meeting with President George Bush and a series of sessions with congressmen of both parties.

The president-elect will take a good look around. His itinerary allots less time at the White House with Mr Bush – 55 minutes – than it schedules for a "street walk" visiting businesses near Washington's mostly black Howard University.

This is unlikely to be meant as a snub to the sitting president, who has promised to make the transition to a Democratic administration as efficient and painless as possible.

Instead, it is probably because the Arkansas governor's schedulers have learnt to build extreme flexibility into a Clinton calendar. During the election campaign, he earned a well-deserved reputation for tardiness caused by shaking every hand proffered and holding long off-the-cuff conversations.

The governor will use the second day of his two-day visit to begin wooing Republicans and to cement relationships with Democrats in Congress. After two years of stalemate in Washington between a Republican president and a Democratic Congress, there is a palpable yearning for the promised thaw in the domestic "cold war", which began when Mr Clinton met Democratic leaders on Sunday.

Mr Clinton and his wife Hillary are also creating a stir on the Washington social scene, where they are determined to prove they are not like the more stand-offish Carters, the last Democrats in the White House.

The Clintons are to attend at least two private dinners – to which invitations are much prized and supposed to be kept secret – and a reception.

Tonight's dinner is being given by Mr Vernon Jordan, chairman of the governor's transition team, and tomorrow night's hostess is Mrs Pamela Harriman, a Democratic party activist and widow of Mr Averell Harriman, the US diplomat and politician.

The Clintons rejected an invitation by Mr Bush to stay overnight at Blair House, the official guest residence, on the grounds that it would be too expensive to open for the occasion. Instead, they are staying at the Hay-Adams Hotel, where suites cost a more frugal $1,200 a night.

Britain backs HK proposals

Continued from Page 1

team to China for a week-long visit next month. Mr Major welcomed Beijing's decision to receive the delegation.

Relations are likely to face a further test later this week when the Hong Kong government asks the Legislative Council for approval to fund a HK$9bn ($1.2bn) contract to build the site of the colony's new airport.

China's refusal to agree to financing plans for the airport threatens to delay the project, which is seen in Hong Kong as vital to business confidence. Mr Patten's policy is to proceed with as much of the airport as can be completed without China's agreement.

The site contract, awarded earlier this year, has been extended once and expires at the end of this month. Legco members expect the council to approve the request for financing approval to be submitted on Friday.

European Court supports Brussels over monopolies

By Lionel Barber in Brussels

THE EUROPEAN Court of Justice yesterday reaffirmed support for the European Commission's powers to intervene directly to prevent monopolies from acting against the wider Community interest.

In a case involving liberalisation of the telecommunications services market, the court rejected complaints by Belgium, France, Italy and Spain that the Commission had abused its powers under Article 90 of the Treaty of Rome.

This is the so-called "nuclear option" which gives Brussels wide-ranging powers to override national opposition to the breakup of monopolies.

The four countries brought the case in response to a Commission directive which freed the rapidly growing market in telephone services such as fax machines and data transfer. Telex services and mobile phones were not covered.

They argued that Article 90 only gives the Commission the right to oversee existing rules under the Treaty of Rome, not to take an active role to break monopolies.

In effect, their aim was to ensure that the Commission could intervene only under the authority of the Council of Ministers, and to send a warning shot to Sir Leon Brittan, the UK commissioner in charge of competition policy, should he press ahead too fast on liberalising the far bigger voice telecommunications market, an EC official said.

Sir Leon welcomed the court's judgment. But EC officials said it was unlikely Sir Leon would press ahead with Article 90 in sensitive areas such as voice telecommunications or energy, given the level of anti-Brussels sentiment in national capitals.

The court, however, criticised the Commission on technical grounds. It said Article 90 could not be used to end long-term contracts or "special rights" in telecommunications, the term covering use of the phone network by companies such as Reuters and Swift, the international bank transfer organisation.

The court thus annulled the two clauses which referred to these in the June 1990 directive.

In several recent cases such as that covering energy, the Commission has deferred to the Council on political grounds. But the result has been considerable delay.

An EC official said the Commission was anxious to uphold the principle of Article 90, rather than the substance of the case which was uncontroversial.

Time ripe for deal on Gatt, says Dunkel

Continued from Page 1

dency," he said. Several ministers, as well as the Commission, said that the statistics produced by France – to demonstrate that Mr MacSharry was going beyond his remit – had won no support.

However, most member states agreed that a Gatt deal would have to be compatible with the new CAP.

Mr MacSharry insisted this would be the case. "I have the most up-to-date statistics available to the Community," he said.

"We are working within the impact of the CAP," he added, "and I'm blue in the face with saying it. Maybe people should start believing the facts."

While US officials believe Mr MacSharry may be able to resume talks after two weeks of EC upheaval without fear of being undermined either by Mr Jacques Delors, the EC president, or by other farm ministers, they are far from confident that bottom-line positions can be reconciled.

US negotiators insisted they had had no contact with EC counterparts since the collapse of talks in Chicago, and had no knowledge of whether the EC was bringing any proposals that would enable a settlement.

In Washington, meanwhile, a report in the Journal of Commerce said that the US and the EC had agreed to leave trade in audio-visual products, such as film rights and television programmes, out of any eventual Uruguay Round settlement.

The newspaper also predicted that the issue of maritime services – a critical ingredient in any proposals to reform trade in services – was also likely to be left out. US shippers have fought fiercely against opening coastal shipping to international competition.

Mr Dunkel picked up these claims as striking evidence of how the long-standing US-EC deadlock on reform of farm trade had led many to commit the error of thinking the Uruguay Round involves two rather than 108 countries.

He said it also illustrated how many difficult trade reforms remain to be debated even if the US and the EC settle their farm trade row.

Ray MacSharry: blue in the face with explaining

World Weather

		°C	°F			°C	°F			°C	°F
				Boulogne	S	8	46	Frankfurt	C	7	45
				Brussels	C	6	43	Geneva	R	5	41
				Budapest	C	11	52	Gibraltar	F	17	63
Ajaccio	F	14	57	Buenos Aires	F	22	72	Glasgow	S	5	41
Algiers	C	16	61	Cairo	S	26	79	Helsinki	Sn	-3	27
Amsterdam	F	8	46	Cape Town	S	19	66	Hong Kong	S	25	77
Athens	F	19	66	Caracas	F	28	82	Innsbruck	Sn	1	34
Bahrain	S	27	81	Casablanca †	F	17	63	Inverness	S	4	39
Bangkok	C	31	88	Chicago †	F	3	37	Islamabad	C	23	73
Barcelona	S	16	61	Cologne	R	3	37	Istanbul	F	16	61
Beijing	C	7	45	Copenhagen	F	7	45	Jakarta	R	31	88
Beirut	S	24	75	Corfu	F	18	64	Johannesburg	F	25	77
Belfast	R	5	41	Dallas †	C	14	57	Lisbon	C	17	63
Belgrade	R	16	61	Dublin	S	5	41	London	S	7	45
Berlin	C	9	48	Dubrovnik		-	-	Los Angeles †	S	14	57
Biarritz	C	13	55	Edinburgh	S	5	41	Luxembourg	C	3	37
Bombay	F	30	86	Faro	S	19	66	Madeira	F	20	68
Bordeaux	C	13	55	Florence	F	14	57	Madrid	F	15	59

		°C	°F			°C	°F			°C	°F
Majorca	C	19	66	Oporto	Dr	15	59	Tenerife	C	21	70
Malaga	F	17	63	Oslo	Sn	0	32	Tokyo	C	14	57
Malta	S	25	77	Paris	C	8	46	Toronto †	Sn	0	32
Manila	C	29	84	Prague	S	6	43	Tunis	C	18	64
Melbourne	S	25	77	Reykjavik	S	[illegible]	38	Valencia	S	18	64
Mexico City	C	20	68	Rhodes	F	21	70	Venice	Dr	12	54
Miami †	F	23	73	Rio de Janeiro	R	35	95	Vienna	Dr	6	[illegible]
Milan	C	7	45	Rome	F	16	61	Warsaw	F	6	43
Montreal †	Sn	0	32	Salzburg	C	3	37	Washington †	C	2	36
Moscow	Sn	0	32	S'Francisco †	Dr	13	55	Zurich	C	3	37
Munich	F	4	39	Seoul	S	11	52				
Nairobi		-	-	Singapore	R	27	81				
Naples	R	15	59	Stockholm	F	0	32				
Nassau	C	25	77	Strasbourg	C	8	46				
New Delhi	S	27	81	Sydney	F	20	68				
New York †	C	4	39	Taipei	F	23	73				
Nice	S	15	59	Tangier	C	19	66				
Nicosia	S	23	73	Tel Aviv	S	28	82				

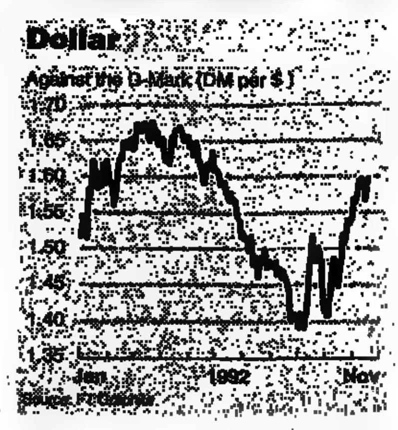
Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

THE LEX COLUMN

BA's economy class

Yesterday's disappointing dip in British Airways' second quarter profits amply demonstrates the volatility of airline earnings. Though this inevitably carries a price in BA's rating, the 20 per cent fall in the shares over the last 10 days looks a little overdone. Next year's prospective multiple on the basis of one City forecast, after all, is 45 per cent below the stock market average.

FT-SE Index: 2679.2 (-0.4)



There is bad news, to be sure, in the latest evidence of falling passenger yields. It will take more than the prospect of a modest economic upturn before the average finance director sanctions first-class travel all round. So far, at least, BA detects no rush of eager British exporters in search of overseas business.

Even so, investors may be putting undue emphasis on the latest numbers. News that currency adjustments will continue to be a malign influence on profits in the current quarter is certainly unsettling, if explicable in terms of the lag effect of advance sales. But this will cancel itself out in the final three months, and boost both yields and earnings next year.

Given BA's reasonably aggressive balance sheet and global ambition, the closer the company gets to its target cash flow of 21 per cent of revenues, the better. This is all the more so since BA has big capacity increases planned for next summer and would be better able to keep up the cost-cutting momentum. While a rights issue is probably inevitable at some stage, the USAir and Dan-Air deals are manageable without it.

National Power

The electricity market may be showing the signs of recession – with sales falling for the first time in a decade – but National Power continues to prosper. The key is aggressive cost control, and while the management has reaped the easiest part of manpower reductions, further savings will come from more flexible working practices. Although National Power will lose market share in coming years, its costs will fall even more rapidly than revenues as its least efficient plant is retired.

That healthy outlook is marred by the uncertainty surrounding the coal industry, but at least the outline of a compromise is visible. The original proposal was for the generators to buy 40m tonnes of British coal. If this were augmented by contracts to buy an additional 15m tonnes next year, declining to 8m tonnes over the following two years, the strains would be eased. British Coal could phase its rationalisation programme, and the extra time might mean that more pits could be made competitive. The generators would still be buying fuel more cheaply than at present, so customers should get lower bills, and, of course, the government's blushes would be spared.

Whatever happens to coal, National Power's biggest problem may prove to be its own success. Profits are still rising sharply and the dividend is covered 3.5 times even after yesterday's 10 per cent increase in the interim. Yet releasing those earnings to investors might just attract the attention of the regulator.

Currencies

The currency markets appear to have lost patience with the Bundesbank's tough posture on interest rates. Yesterday's signal that rates will not be cut was immediately followed by concern for the industrial outlook. Having already cleaned up at the expense of sterling, foreign exchange traders are unlikely to risk their annual bonuses by aggressively gunning for the D-Mark before Christmas. But as the recent spate of issues in the Euromarket illustrats, investors have already started to vote with their feet.

The French franc and Danish krona have already benefited from a weaker D-Mark and are out of the danger zone within the ERM. More remarkably, Italy's aspiration to rejoin the system by the year-end looks like more than wishful thinking. Having allowed the Italian currency to trade in a tight range against the D-Mark for the past three weeks, the market is already discounting such a move. Judging by the 5 percentage point difference between German and Italian short-term interest rates, though, the market will demand a hefty premium for holding lire even at a lower central rate.

For this reason alone the UK government may feel vindicated in its decision to float sterling. But a softer D-Mark may not offer more room for manoeuvre. Sterling has so far notably failed to catch the coat tails of a rising dollar. Yesterday's PSBR figures are a reminder of the scale of the deficit which has to be financed next year. Sterling may have to fall further before overseas investors are tempted to buy gilts.

Sedgwick

The sighs of relief after sterling's depreciation must have been deafening in Sedgwick's boardroom. Only a few weeks before Black Wednesday, the directors somewhat sheepishly had to admit that they had virtually no forward cover for 1993 dollar income. As investors have since appreciated by marking the shares up 15 per cent more than the market, there is some difference between a $2 pound and a $1.51 pound.

Financial coup or big slice of luck? Shareholders will no doubt give the company the benefit of the doubt, but Sedgwick will reflect that it is in the business of insurance broking, not currency speculation. It would be a surprise if such a position arises again.

Amstrad

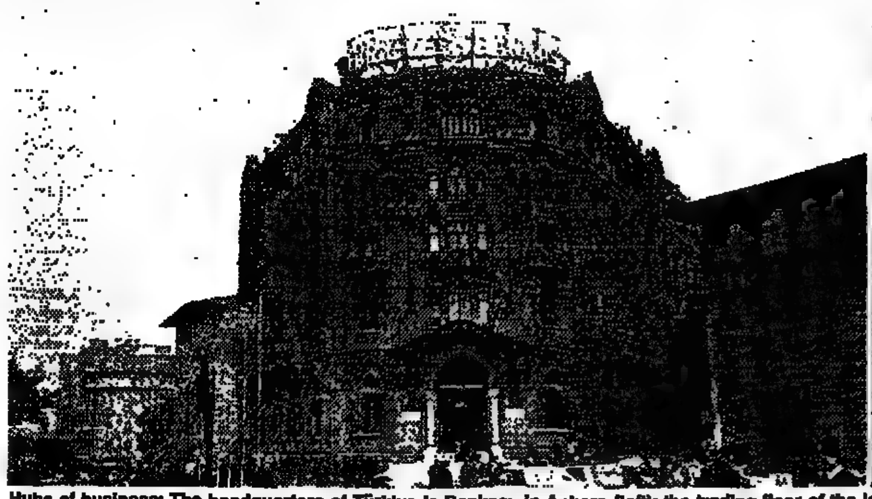
Irrespective of whether Mr Alan Sugar is offering a fair price for Amstrad, shareholders have a right to expect better treatment. His offer document contains only a gloomy paragraph on the trading outlook, no profits forecast, no comment on the last four months' performance and no detail of Mr Sugar's plans for the company once it is in private hands. Mr Sugar maintains that no detailed plans exist. But one can hardly imagine Lloyds Bank is stumping up £43m on the basis of sketchy assurances.

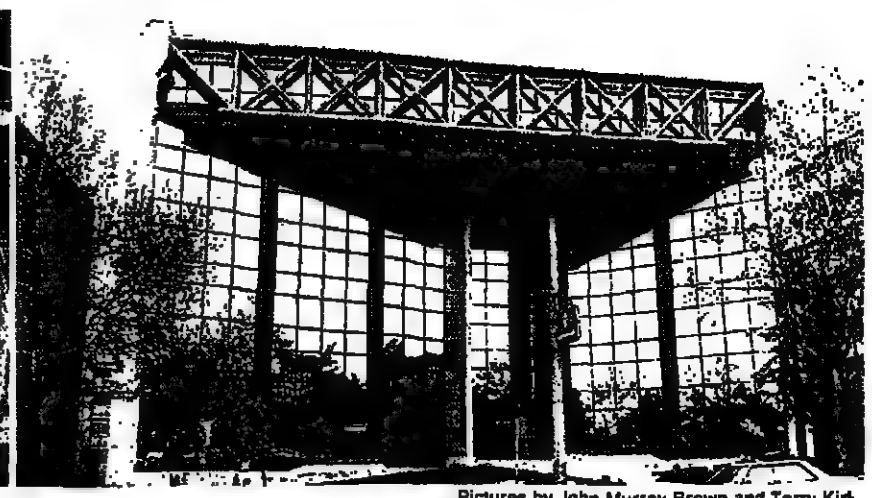
In the absence of either non-executive directors or an independent financial adviser to comment on the terms, the level of disclosure is inadequate. Mr Sugar cannot expect shareholders to be happy with his offer while he gives so little away.

TURKISH FINANCE, INVESTMENT AND INDUSTRY

SECTION III

Wednesday November 18 1992





Hubs of business: The headquarters of Türkiye İş Bankası, in Ankara (left); the trading floor of the Istanbul Stock Exchange (centre); and the headquarters of Şekerbank, in Ankara

Pictures by John Murray Brown and Terry Kirk

In search of a new identity

The country is still on track for a customs union with Brussels, says John Murray Brown, but political vacillation has served to undermine the case for economic convergence with the EC

RARELY CAN Turkey have had such an opportunity to shape the future of its region. In a wide arc, stretching from the Balkans through the new republics of central Asia even to its Arab neighbours to the south, Turkey is quietly asserting a growing influence.

These, of course, are turbulent times. A country which suffered a bout of painful soul-searching when the president suggested sending troops to the Gulf war, is today offering conscripts to sort out the horrors of Bosnia Hercegovina; is despatching military experts to advise its allies in the Caucasus; and has deployed up to 20,000 commandos to fight Kurdish separatists in North Iraq, in what most Turks are describing as the largest operation since the invasion of Cyprus in 1974.

If Turkey appears ready to assume new responsibilities towards the emerging states of central Asia and the Black Sea, it is a policy shaped more by necessity than choice. Few of the Soviet Union's neighbours can have welcomed its collapse with quite such mixed feelings. The strategic imperatives which once underpinned its role in Western defence, are now changing with alarming speed. In its place the country faces uncertainty and confusion wherever it turns.

When he arrives in London for a working visit next week, the prime minister, Mr Süleyman Demirel, will again make the case for Turkey's special relationship with Europe – an idea promoted by Mr Douglas Hurd, the UK foreign secretary but rudely overtaken by European issues of more urgent concern.

Early this month, Turkey won the EC's endorsement for the idea of enhanced ties, following a meeting of the EC-Turkish Association council. However, on security issues, Turkey has reluctantly had to accept an offer of associate membership of the nine-nation Western European Union defence organisation.

Turkey's contention is that its value to the west has become more vital. But in the wake of the confusion over the Maastricht Treaty, even government officials concede that any chance of early Turkish membership of the European Community now looks increasingly remote.

Today, Turkey finds itself conducting the search for a new identity against a backdrop of political and economic uncertainty at home. Turkey's political establishment is still trying to rid itself of the constraints imposed in the wake of the last military coup in 1980. Moves are under way to liberalise the broadcasting sector from state control. Patent legislation is ready to go to parliament. There is even talk of seeking the necessary two-thirds support in parliament to throw out the 1982 military constitution, which many Turkish politicians feel is at the root of the country's problems.

In many respects, Mr Demirel's conservative-led government has proven more resilient than many can have imagined. The prime minister has shown himself a skilful ringmaster in the often awkward squabblings of cabinet ministers and senior bureaucrats. An apparently weakened coalition has shown little sign of being permanently disabled by the recent defections of a number of deputies from the junior partner Social Democratic Populist party.

Nonetheless, for many Turks the great expectation with which the government's programme was initially greeted has been replaced by doubts and disappointment at the lack of progress. In an international environment of such dizzying change, the domestic agenda has come to play second fiddle.

On too many occasions, the painstaking search for political consensus has hindered effective action. On a range of domestic issues, from tax reform and privatisation to human rights, Mr Demirel has instinctively chosen a policy course of least resistance.

Almost a year to the day since taking office, he has bowed to hardline pressures within his True Path party, and abandoned any hope for a political solution to Turkey's Kurdish problem. With the economy forecast to grow by around 5-6 per cent this year, much of the urgency has gone out of the anti-inflation policy.

The economy is still on track for a customs union with Brussels in 1996, but an increasing number of companies question whether this is still in Turkey's best interest. Political vacillation has served to undermine the case for economic convergence with the EC.

Foreign investors intending to come to Turkey are still uncertain whether to expect more reform on the trade side, or whether they can plan for continued protection and labour costs currently enjoyed in the domestic market.

Turkey's problems are those of a robust economy trying to unburden itself of the shackles of a vast public sector, something that Mr Demirel inherited rather than created.

Today many of Turkey's industrial families would not look out of place in more developed countries. Trade liberalisation has increased the efficiency of Turkish producers. Domestic manufacturing can no longer rely on an overvalued currency to protect it from import competition. Existing lines have been reoriented for exports, which today account for a growing proportion of company turnover.

This growing strength of the Turkish product market was underlined this year, when Unilever, the UK-Dutch industrial group, bought out the local Komili group, in what is believed to be the first instance of a foreign buyer putting a value on a Turkish brand name.

For all that, even in the most successful boardroom, the burden of the government's budget on the economy has become an increasingly dominant motif. The public sector borrowing requirement was 12.5 per cent of GNP in 1991, and shows little sign of improvement this year. Inflation, after slowing through the summer, rose to 69 per cent in October.

Some bankers talk gloomily of impending business failures. In such an environment, companies have little inclination to put resources into greenfield site developments, although recent increases in capital goods imports are seen as a more positive sign that the investment cycle may be on the turn.

Stock market reform has been slow, while the index has fared worse than that of almost any other developing country, according to the International Finance Corporation, the World Bank's private sector lending arm. The Istanbul Exchange is still driven by the prevailing trend of interest rates, and until equities offer investors comparable returns, corporations are unlikely to be able to tap the market for a source of investment capital.

The tax system is also inadequate. An amnesty offered to tax offenders will provide a blip to the tax receipts in the current year, but it does not address the real problems of poor collection and widespread payment avoidance. Moreover the system itself is distorted. Ironically, the one area where collection is possible is that of waged labour, now taxed at rates higher than any country in the OECD – an anomaly which is at the heart of Turkey's poor labour relations record.

The farm sector continues to enjoy implicit subsidies through the government's support-price programme. Any attempt to cut back on the programme could add to the social and political problems of urban migration, which has put services under such strain in Istanbul and other cities.

In many areas of social policy, there is an urgent need for more spending, not less. In health care, social security *insurance, and primary education*, Turkey falls far behind its OECD competitors. There is still no effective safety net which might ease the impact of the widescale closure of state companies.

As the World Bank makes clear in a study on the public sector enterprises, the cost of reform, through labour restructuring and other measures, is only $7bn over two years. The financing cost of continuing to support the state industries is conservatively estimated at $18bn. There would seem little choice but to push forward.

IN THIS SURVEY

Printing money to meet the loss

☐ *Financing the losses of* Turkey's state-owned enterprises, generally through printing new money, has added to the budgetary burden **Page 7**

ALSO

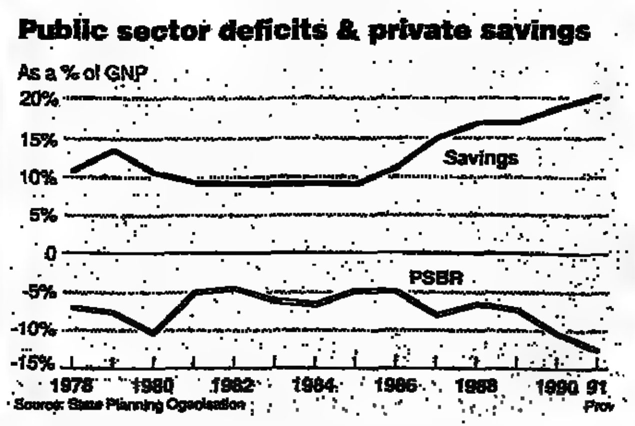
FEW SUBJECTS arouse such contrasting views as the state of health of the Turkish economy. Some of the indicators – the inflation rate, the public sector borrowing requirement (PSBR), the steady erosion of the Turkish lira – remain consistently gloomy. Yet official reserves, often seen as a measure of an economy's well-being, are at near-record levels.

The balance of payments looks robust, with capital inflow comfortably matching the deficit on the current account. Another positive indication is the increasing facility with which Turkish institutions seem able to tap the international capital markets.

Turkey today is a dynamic economy striving to throw off the inheritance of a large state sector, in a free-exchange regime increasingly sensitive to policy errors. The foreign debt, at around $51bn, is manageable. The private sector has proved resilient in a difficult business environment. Exports are now a major part of the Turkish balance of payments – where a few years ago all that Turkey exported was its *Gastarbeiter*, or guest workers. Equally encouraging, the recent growth in imports included a 34 per cent increase in shipments of capital goods, suggesting that Turkey may be nearing the end of the recent investment slump.

The problem, as ever, is the government's huge appetite for

Mrs Tansu Çiller has at times struggled to present a coherent strategy



Mr Süleyman Demirel's government sometimes ignored the Gulf factor

John Murray Brown on a dynamic economy striving to shed the inheritance of a large state sector

Government appetite proves inhibiting

funds, which crowds out the equity markets and has pushed interest rates to a point where they provide an active disincentive to investment. Already at around 70 per cent for deposits, bankers say rates are likely to rise further.

Mrs Tansu Çiller, the Istanbul professor entrusted by the prime minister, Mr Süleyman Demirel, to handle the economy, has at times struggled to present a coherent strategy, to address the need for fiscal and monetary discipline while creating jobs for a growing labour force.

When she unveiled her programme in January, many economists expressed their doubts. The programme envisaged 5-6 per cent growth, while inflation was projected to fall to 42 per cent. The growth target still seems within range. Inflation, however, shows little sign of slowing down.

The figures, of course, mask one important factor – the distorting effect of the Gulf crisis, a point Mr Demirel's government has sometimes chosen to overlook when comparing his performance with the previous 12 months under the Motherland party administration.

For example, this year's growth rate is somewhat less impressive if you consider that, in 1991, the economy was at a virtual standstill. The tourism industry is a case in point. Badly hit by the crisis, the industry has bounced back. For the first half of 1992, revenues rose 60 per cent to $1.4bn, the largest single item on the current account. On the other hand, Turkey is unable to look to the grant assistance which it enjoyed in 1991. These amounts were vital in helping to close the budget deficit, and produced a small surplus on the current account.

The latest balance of payments figures nonetheless reassert the fundamental strengths of the economy. In the six months to June, the current account recorded a small $760m deficit. On the capital account, portfolio investment was up, together with direct foreign investment, although this remains a surprisingly small item on Turkey's balance of payments. In addition, there was a marked increase in foreign borrowings, with the Treasury for the first time tapping international bond markets in Japan and the US, after receiving a BBB rating from Standard & Poor's, the US rating agency. The one cause for concern, however, was a large increase in the errors and omissions, suggesting that residents are still choosing to hold their foreign exchange savings in hand.

The year started with the government announcing a wave of price increases for state enterprises, which the previous administration had held back in a bid to win voters in the run-up to the October election. The 11 per cent jump in inflation which resulted was then blamed firmly on the old regime.

Inflation dropped steadily from January onwards, falling to 0.5 per cent in June, the lowest monthly inflation rate since mid-1990. Indeed, almost any rate would have seemed better than the January figure. However, it was only a matter of time before the chickens came home to roost.

Economists were already pointing to seasonal factors, like the agricultural surpluses resulting, in part, from the inability of exporters to ship produce because of the Yugoslav crisis. Economists believe there has been an underlying upward trend in inflation, given the money supply growth over the same period as the Treasury resorted increasingly to the central bank to finance its spendings.

In September, there was thus little real surprise when inflation jumped by 7.4 per cent, compared with 3.3 per cent in August. In October, the rate was even higher, at 7.6 per cent or 69.2 per cent on an annualised basis.

Unless the government now comes to terms with the problems of the budget and the PSBR, it is hard to see how Mrs Çiller can hope to bring down inflation. In turn, without a reduction in the PSBR, upward pressure on interest rates will continue, holding back badly needed private sector investment.

The latest balance of payments figures reassert the fundamental strengths

Some measures have been taken. Changes were introduced to the taxes relating to government securities, to make it more attractive to hold longer-term paper, to extend the government's debt maturities.

The strategy on capital market reform of the capital markets too has been shaped by the need to create longer-term funds for business, hitherto reliant on costly bank borrowing. Mrs Çiller has introduced new products, like securitisation of consumer credits and other bank assets. Regulatory change has tightened up disclosure rules. In addition, the government is now encouraging equity investment on the part of mutual funds, in a bid to increase market liquidity.

However, on tax and privatisation, two areas vital to the short-term budget picture, the government has vacillated. Officials rule out any major changes in the tax regime, although government receipts were enhanced by the law on tax amnesty for tax offenders passed in March.

On privatisation, the government is counting on raising TL5,500bn (£438m) in 1992 from the sale of minority participation in what are, by and large, privately managed companies. The revenue effect is all too welcome, but, like the tax amnesty, this is little more than a one-off exercise, unless measures are taken to divest the state of the main loss-making state enterprises.

More controversial was Mrs Çiller attempt to talk down interest rates in the first half of the year. By resorting to cheap central bank funds, she fuelled monetary growth as a way to exert downward pressure on rates. But in so doing, she come close to open conflict with a central bank governor, strenuously defending the lira's position.

Up to June, the central bank was forced to intervene heavily to sterilise this money creation by selling dollars to the market. Inflation strategy has since changed, but damage control has become the major preoccupation, leaving the fundamental causes of inflation untouched.

Without major reform, there is little room for manoeuvre on the expenditure side. Debt servicing still accounts for 20 per cent of total spending. To the government's credit, infrastructure investment spending has already been sharply cut back, much to the chagrin of the powerful contractors lobby, who rely on the government for project work. But economists expect the central government budget deficit to be closer to TL55,000bn, compared with the TL32,000bn forecast under the programme.

When the deficits on the public sector enterprises and the special non-budgetary funds are added, it is hard to see how the government can contain PSBR to the target of 8.8 per cent of GNP. Officials privately say the government will be lucky to see anything less than 10 per cent.

Few but the most pessimistic will see a crisis looming. There is nonetheless some disappointment that the government has not pressed ahead with its promise of structural reform.

Profile: Emre Gönensay

A thrower-up of ideas

A TASTE for Jermyn Street shirts is not the only thing he has in common with the prime minister. As "ambassador and chief adviser" to Mr Demirel, Professor Emre Gönensay has emerged as a key figure in the Turkish government.

In the revolving doors of Turkish policy-making, the exact contribution of this 55-year-old former lecturer at the London School of Economics is hard to pin down. His Ankara office is in a small government building on the road out of town. Colleagues say his task is simply to throw up ideas for Mr Demirel.

If his curriculum vitae is anything to go by, he is not the grey academic type – director of Koç Holding, of Egebank, founder and director of Chemical Mitsui Bank Turkey, and chairman of Turkinvest.

Prof Gönensay makes few public statements. He claims he was misquoted by the official Anatolian Agency, when expressing enthusiasm for the prospect of a No vote in the French referendum on Maastricht, which he said would enhance Turkey's long-term chance of finding a home in Europe.

But Turkey, he says, wants a Europe as wide and as open as possible. "There needs to be a multilateral globalisation of the northern hemisphere. Look at the Black Sea Co-operation Agreement we signed in June: that's our contribution. It's not watertight and it's not a trade bloc."

He maintains that there are important lessons for Turkey in the confusion over Maastricht and the currency crisis in the exchange rate mechanism.

His enthusiasm for a treaty which some believe is already a dead letter might seem curious, particularly given Turkey's own economic realities – 67 per cent inflation, and a budget deficit running at 11 per cent of GNP. In diplomatic and business circles, there are already real questions as to whether Turkey will make its 1996 deadline of full Customs Union with the EC, given the need to keep tariffs high for revenue-raising purposes.

Prof Gönensay's view is that Turkey should adopt the financial targets on inflation and budget deficits, as agreed by the Twelve. "Maastricht, together with a fixed exchange rate, could provide a convenient external anchor for Turkey," he says. "It's an an irony, but in Europe there is so little inclination left to wring inflation out of the system, that it's not worth the suffering. In Turkey I think we are still prepared to suffer."

He sees little room for manoeuvre on tax reform, contrary to the analysis of the OECD and other economists. Turkey's economy is already taxed at around 26 per cent of GNP, he says. "In a country like ours, you cannot hope for a rate much better than that."

The alternative is to cover the deficit by more foreign borrowing or foreign investment. "Personally, I would like to have seen an increase in our foreign borrowing this year. Our credit rating was fairly good. But now we've lost time." Of course, the only "miracle" cure he can see is privatisation.

The professor has just two proposals: adopt the practice of balanced budgets, and strengthen the central bank. "We need a mandate for the central bank to enable it to stabilise prices. No bank governor in Turkey can stand up and do something different from the government."

His idea is to peg the exchange rate to some low-inflation currency, which he says would take the "discretion out of the central bank's policy-making."

If only for the economic benefits, Prof Gönensay wants "to see Turkey fulfil the conditions for full membership" of the European Community.

"Customs Union without full membership? Well, that's a matter for the politicians."

John Murray Brown

Banking: a successful sector. But are there too many players? asks **Anthony McDermott**

Policies criticised as incompatible

LIBERALISATION has brought with it two big questions. Is Turkey overbanked? And is it over-regulated?

Concern also remains as to whether it is over-dominated by the big four: Ziraat (the largest commercial institution, with branches in London, New York and Frankfurt, and which controls about 40 per cent of total deposits and supplies credit to the agricultural sector), Akbank, Işbank and Yapı ve Kredi.

Banking is one of the country's most successful economic sectors – not least when performance is identified on the Istanbul Stock Exchange – though profits are currently leaner than last year.

But arguments have persisted, which Mr Rüşdü Saracoğlu, the central bank governor, tactfully tides over, about the extent to which the government is committed to curb inflation and is resorting to short-term advances from the central bank in order to finance economic growth.

Mr Saracoğlu regrets that the central bank is seen as "an arm of the government", rather than an independent entity.

The World Bank also wonders whether the government has a coherent banking policy for the next three years. Inflation of about 70 per cent in itself causes less concern than a feeling that the government should try to find a balance between the inflation rate, the growth rate, the balance of payments and the financing of the budget deficit.

But the governor has urged that Turkey should follow the German example and make the central bank more independent of the government, and even impose a legal limit on the value of bank notes in circulation.

The central bank believes there are too many small banks, and that new licences handed out by the Treasury were a mistake. Of more than 80 local players, including commercial and investment banks, only 12 had more than 100 branches, and 25 have less than 10. Some bankers argue that Turkey is not overbanked, but over-branched.

Mr Erol Sabancı, managing director of Akbank, one of the most profitable institutions, has said: "I don't believe we need so many banks. Mergers among government banks can and should be done, and also in the private sector." But since the sector seems to be profitable and successful, there is resistance to change.

TURKEY'S TOP BANKS: 1991 ($m)

	Tier One capital	Capital/assets ratio (%)	Pre-tax profits	Assets
1 TC Ziraat Bankası	700	6.74	385	10,383
2 Akbank	543	14.90	294	3,646
3 Türkiye İş Bankası	262	4.81	94	5,449
4 Yapı ve Kredi	260	6.93	101	3,746
5 Türkiye Garanti Bankası	213	9.11	96	2,334
6 Türkiye Emlak Bankası*	153	2.77	51	5,510
7 Vakıflar Bank	130	4.28	25	3,032

*1990

Source: The Banker, September 1992

In theory, the 1980s were a decade of reform and restructuring, to enable Turkish banks to integrate and compete in the international arena. Interest rates on loans and deposits were freed, as was the foreign exchange market. However, much of the state-regulated system has remained – hampered by the political in-fighting of the various offices which control and run the economy.

Liberalising legislation came into force at the beginning of 1980, when there were 5,975 bank branches and total bank deposits amounted to TL813.7bn (£64.7m). Interest rates were floated, and soon rose exorbitantly, leaving the already under-capitalised banks with a large quantity of non-performing loans, and encouraging more informal finance houses to start business.

At the end of 1990, there were 40 deposit-taking banks, eight of which were in the public sector. There were also 26 foreign banks. As with the rest of the economy, the banking system faces some confusion in the sometimes contradictory views it receives from the offices of Mr Süleyman Demirel, the prime minister; Mrs Tansu Çiller, the minister of state with responsibility for the economy; and Mr Rüşdü Saracoğlu. The last has held his position since July 30 1987.

Also at issue has been the question of whether certain government policies are compatible. For instance, given the aims of sustaining economic growth and making the economy more competitive internationally, is it also realistic to expect to keep inflation low?

There has been some streamlining of domestic commercial banking, through improvements in trade finance, cash management, personnel training and technology. Standardised reporting and external auditing have become common practice.

Meanwhile, the past year or so has not been without difficulties.

"The year 1991," the governor of the central bank said last April, "proved to be a rather difficult one in conducting monetary policy... We entered with the advent of the Gulf war. The environment of uncertainty hit the banking sector hard, and in just 10 days, nearly 12 per cent of total Turkish lira deposits and 11.5 per cent of foreign exchange deposits were withdrawn from the banks."

Eximbank has extended credits of $50m to Hungary for the import of Turkish intermediate, consumer and investment goods, and $50m to Uzbekistan

The governor claims, with some justification, that the central bank's intervention prevented a damaging flight of capital – even at the cost of running down reserves.

Political uncertainties resulted in a general election, but, as the governor pointed out: "For the first time in its history, Turkey managed to hold a general election without resorting to any foreign exchange restrictions."

Yet he remains staunchly at odds with having to fund the government's soaring public deficit, as are the authorities involved with the privatisation of state economic enterprises – particularly where the public sector is involved.

Turkey's banking ambitions extend outside the country. Its Eximbank has extended credits of $50m to Hungary, for the import of Turkish intermediate, consumer and investment goods, and $50m to Uzbekistan. Last May, Mr Demirel announced a $1.2bn package of export credits and soft loans for six of the Moslem central Asian states.

In 1991, Turkey's Eximbank had nominal capital of TL2,000bn, and aimed to increase the competitiveness of exports. But perhaps the government in Ankara should look more closely at banking problems at home before becoming over-ambitious abroad.

Profile: Rüşdü Saracoğlu, governor of the central bank

Adaptable but independent

HE HAS been described as Turkey's Felipe Gonzalez. The combination of an astute economic brain, a good political pedigree and those eternally boyish good-looks has made Mr Rüşdü Saracoğlu, the governor of Turkey's central bank, one of the most enduring figures on the political scene.

At 38, he was the world's youngest central banker when he was appointed in 1987. Today, this grandson son of a former Turkish prime minister has made the job of Turkey's top banker his very own.

Talking to him in his dark wood-panelled office, in the Bank's Ankara headquarters, he remains urbane, soft-spoken and totally self-assured.

"Actually, I normally work in the other office. It's brighter, and suits my mood," he explains.

But it has not been an easy task. The only incumbent of the office to be re-elected, he is nonetheless one of the few high-ranking bureaucrats appointed during the former Motherland party government to survive the change of administration.

Mr Saracoğlu has had his differences with the new government, particularly with Mrs Tansu Çiller, the economics minister. During the recent IMF-World Bank meetings, in Washington, she publicly blamed the governor for Turkey's current economic ills.

The Bank's balance sheet has rarely looked more robust. Reserves are near record levels

But today the Bank's balance sheet has rarely looked more robust. Reserves are near record levels. And for the moment, at least, the tussle with the Treasury over the use of cheap credits to finance its expenditures seems to have been resolved, in the governor's favour.

He even shows little concern about what some economists believe is the worrying growth of foreign borrowing by the private commercial banks. As he likes to point out: as a percentage of Turkey's external receipts, foreign borrowing has in fact fallen steadily during his governorship.

In many ways, Mr Saracoğlu sees himself as a classic central banker – there to preserve the domestic and external value of the currency, contain inflation, and influence the price of money by containing the liquidity of the financial system. But he is the first to acknowledge the limits of the Turkish system: "Given the monetary constraints, and given our culture, it is not easy. The central bank has never really been looked at as an independent institution, and still is viewed as an arm of government."

Nonetheless, he is quick to recognise what he feels is the new maturity of the Turkish financial system, which six years ago had no interbank money market, and only four years ago started foreign exchange trading.

Through the Gulf crisis, the turbulence of the last days of the old Motherland party government and the political and economic uncertainty surrounding the new coalition, confidence in the lira has never really looked under threat, says the governor.

Structural problems remain. The central bank is still required to fund the agricultural purchases of TMO, the state-owned cereals board. More damaging, the Treasury can still turn to the Bank for up to 15 per cent of budget appropriations.

Many countries set such a limit; however, it is normally considered more prudent to set the figure as a percentage of revenues, not spending as in Turkey's case.

The governor's personal opposition to such a provision is well known. "A government must voluntarily choose not to resort to it. Even if it is legally feasible, it is not economically sound," he argues.

For, as Mr Saracoğlu maintains, the size of Turkey's budget deficit is not itself the problem, so much as the way it is financed. "The problem is the size of the fiscal deficit, relative to the financial system," he says.

The Treasury's ability to draw on cheap central-bank money threatens fiscal stability. In 1989, the Treasury and the Bank agreed a protocol, under which they put a monetary ceiling on the volume of these cheap credits, over which the Treasury must pay market rates. "And lo and behold, the Treasury never borrowed more than the limit," the governor says.

Today it is a different matter altogether. Mrs Çiller spent the first half of the year fine-tuning the level of credit in the system, in pursuit of her goal of lower interest rates. The strategy has meant increasing lira liquidity, by turning to the central bank, rather than the bond market, to meet the Treasury's growing demand for funds.

Rüşdü Saracoğlu: the only incumbent to be re-elected Picture: Terry Kirk

The strategy failed, in part because Mr Saracoğlu entered the market to absorb the lira expansion he had just been forced to create. But by adopting a tight money policy, inflation was held in check, and the confidence in the lira was maintained. The Bank's intervention prevented a run on the lira. It also served to contain the lira value of servicing Turkey's foreign debt.

But, just to absorb the increased liquidity, the Bank estimated that it ran down its reserves by $2.5bn selling foreign exchange to the market. With central bank gross reserves now recovered to $7bn, compared with $4.8bn in June, some analysts wonder whether Mr Saracoğlu may just be preparing for another tussle with Mrs Çiller.

John Murray Brown

Profile: Erol Aksöy, of Iktisat Bank

Innovative showman

MR Erol Aksöy has acquired, in Turkish banking terms, a formidable list of titles.

Born in Istanbul in 1946 (thus the age of fifty still beckons), he is vice-chairman (but leading light) of Iktisat Bank, with a net worth of $50m and representative offices in New York, London and Moscow.

The bank handles between 8 and 9 per cent of Turkey's two-way trade finance. Already in 1991, in its investment role, it accounted for 17 per cent of commercial paper issued and 11 per cent of corporate bonds in Turkey.

Mr Aksöy is also chairman of: Iktisat Leasing, the first company of this kind to be set up in Turkey; Hayat and Emek Sigorta, life and non-life insurance companies; Banque Internationale de Commerce (BIC), with more than $1bn on loan tombstones in Paris (75 per cent owned by Iktisat); BIC International Credit, in London; and the Park Avenue Bank, in New York, a small bank with equity of $15m.

Erol Aksöy: persuasive in conversation

Turkey, he protests, had become, in banking terms "very introverted". He has tried to change this.

His ambitions, interests and career achievements have not necessarily endeared him to his closest associates. But he is persuasive in conversation, as one who has gone out to be first in whatever fields he attacks. He occupies an office that is dimly-lit and hung with many paintings in heavy gilt frames. The intended impression is of old money – though it is not. Books include "Leadership Secrets of Attila the Hun". Mr Aksöy also has the largest collection of Iznik tiles in Paris (half his personal collection) – a harmony of aquamarine and turquoise.

At the same time, his rise to banking influence and authority reflects other aspects of his life. His education includes a BS degree in electrical engineering from MIT, 18 months in the Turkish army, an MBA from Harvard Business School and a baccalaureate from the Lycée Michelet in Paris.

More intriguing than the facts and figures of the organisations that he controls is the way in which he was involved with the largest family-owned conglomerates - Koç and Sabancı.

In 1976, Mr Aksöy became vice-président in charge of finance at the Koç group, and then general manager of Garanti Bank, owned by both Koç and Sabancı. This bank's operations were not a success, not least because Sabancı was reluctant to have it succeed in a way which would have provided competition with Akbank (wholly-owned by Sabancı).

In 1980, he became managing-director of Interbank, owned by Mehmet Emin Karamehmet, head of the troubled Çukurova family group, developing the bank into the country's first wholesale trade finance bank – thanks, in part, to being able to draw on his US background by introducing into the office marble, roses and clean-limbed executives.

In 1984 came a turning-point, when he managed to acquire, for next to nothing, a small regional bank – Iktisat Bank. He expanded its activities to the growing capital markets in Turkey through its subsidiaries.

There were financial links between Interbank and Iktisat, which helped the latter out of its troubles, thereby enabling it to provide a basis from which to move overseas.

For, through 75 per cent ownership, he is chairman of the bank in Paris and has also acquired control of ownership of the small New York bank - the Park Avenue Bank. It was another first for Mr Aksöy, in that it made him the first Turkish banker to venture to issue Turkish paper overseas and to syndicate loans for Turkish companies there.

Meanwhile, he has displayed his showmanship by having one of the largest ocean-going yachts in Turkey, and by defying, legally, TRT, the government broadcasting agency, through the direct beaming of private television programmes from Paris to his homeland. It has not made him loved, but he has shown that the Turkish banking system has room for ingenuity and innovation.

Anthony McDermott

Anthony McDermott assesses the stock market

More will own shares

THE ISTANBUL Stock Exchange (ISE), Turkey's only one, plans to move next year from the building which used to house the company Eros, producing underwear, to modern premises with fully computerised facilities.

The move is necessary because, although it is a comparatively small entity, with the shares in 143 companies being traded in October, the ISE is facing challenges that reflect the severe demands of the government's privatisation programme and a desire on the part of brokers to spread share ownership.

The genealogy of the ISE stretches back to the Dersaadet Stock Exchange in the 19th century, when it was the country's most organised exchange. The Capital Market Board was established in 1982. Regulations governing the establishment of the ISE were approved by the government in October 1984. It opened late in 1985, and began operations the following year.

The Interbank Market was initiated in February 1986, the Foreign Exchange Market in August 1988, the Gold Market in March 1989.

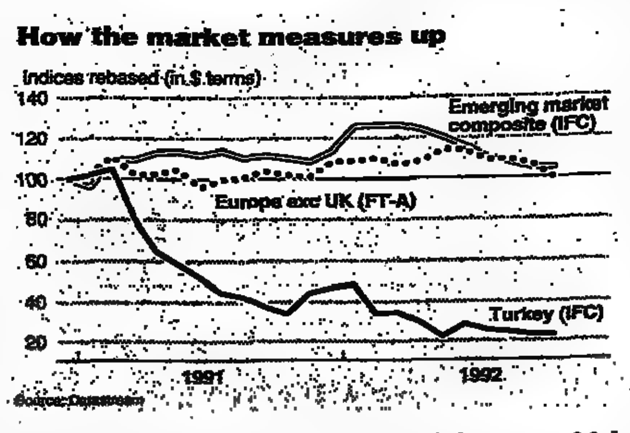
The ISE's opening to international investors permitted free repatriation of dividends, and initial investment and capital gains were allowed. Taxes on capital gains were suspended. But foreign investment has still to take off.

The Securities Market was established in June 1991. In May, amendments were introduced to the Capital Markets law, which aimed at providing greater investor protection against insider trading. These changes were intended to encourage local institutional investment and to boost liquidity on the ISE. In July, the government introduced tax reforms to revive (from January 1993) market activity, by giving encouragement to investors through tax exemptions, and to companies considering equity flotations.

The daily average volume of trade in shares has increased considerably in the past five years – from $417,000 in 1986 to $3.2m in 1989, and over $34m by the end of 1991 ($37.8m January-September 1992). The total trading value rose from $16m in 1986 to $8.5bn in 1991 ($7bn in the first eight months of this year). The number of shares traded rose over the same periods from 3m to 4.5m (8.9m during January-September 1992). The major surge in activity was between 1989 and 1990, when annual trading volume rose from $818m to $5.9bn and the number of companies traded from 76 to 110.

The ISE index – 100 in January 1986 – hit a peak of 5,384.48 in July 1990, and stood at 3,894.63 in the middle of last month.

The growth in the capital markets is reflected by the fact that, while the ratio of stock market rights issues to annual gross domestic savings in the economy was 1.5 per cent in 1989, it had reached an estimated 8.1 per cent in 1991.



However, Turkey's domestic capital markets have been dominated by government debt, with the result that private companies rely almost entirely on bank debt for financing. But while the ISE may have grown in real terms six-fold since 1990, this has largely been accounted for by the introduction in April of a second board for bonds, which effectively meant government paper.

But there have been major fluctuations – notably in October last year, coinciding with the general election – to the extent that the Capital Markets Board felt the need to issue a new decree to discourage short-selling as a result of heavy daily speculative trading.

The market recovered after the election, but broader price indices over the past two years indicate the extent that the ISE – hit by inflation and the depreciation of the Turkish lira against the dollar – is one of the more under-performing markets among developing countries, and one which, in spite of legislation, is still not attractive to foreign investors.

Another factor affecting the market negatively is the trading volume of public-sector securities, which make up about 80 per cent of the total trading volume of the capital markets.

The Turkish authorities – as recently as the spring of this year – were hoping that a growing number of institutional players on the ISE would reduce the market's volatility. Euromoney wrote that:

"Material produced by securities house Global Securities shows the wild fluctuations in price/earnings [p/e] ratios for the 140 stocks on the exchange. In September 1989...the index p/e was 9.6. In 1990, the index went through an extraordinary roller-coaster ride, with p/es reaching 30.9 at its peak in September. Indeed, for a period between the end of 1989 and the third quarter of 1990, Istanbul was the world's best performing index. The Gulf war brought the index back to 1989 levels of 13 or 14, and today [May 1992] it stands at 10.5."

On October 16, it stood at 10.93. Dividend yield that day was 5.95 per cent.

In terms of profitability, according to a study based on the performance of companies quoted on the ISE, the energy sector was in the lead, with Çukurova Elektrik and Kepez Eelektrik the outstanding companies. This sector, which recorded TL44.81 profit for every TL100 of electricity sold, was followed by the tourism sector (37.56 per cent), insurance/leasing (27.29), electronics (26.30), construction (23.44) and cement (20.37).

More recently, the ISE saw a fall in July of 3.3 per cent in the composite index; but the index fluctuated between 3,900 and 4,200 points, and a further decrease of 2.5 per cent was recorded in lire terms in August (reflecting an eight-month decrease of 4.9 per cent in lire terms and 31.5 per cent in dollar terms).

Trading volume in August fell strikingly by 47 per cent, compared with the previous month. Overall, during the first seven months of 1992, according to Global Securities, the Istanbul-based brokerage house, the ISE's composite index fell to 3,141.98 points, to rise as high as 5,128.91.

Mr Haydar Serezli, general manager of Çarşı Securities, the largest brokerage company, with 5.2 per cent of total transactions in 1991, pleads for wider education in equity investment, to coax money out from under bedspreads and into the ISE.

He regrets the lack of interest among foreign investors, and wants more involvement by institutional investors. He does not see a need for exchanges elsewhere in the country, for his company is able to provide information to 3,000 people a day in six different cities on any one working day. But he points out: "It is not yet a mature market. There is a huge unfulfilled demand in the local market."

Once the ISE has moved and is fully automated, Mr Serezli expects to see much interest among the 60 per cent of the national population of potential shareholders who live in the main 15 cities.

Gold may be given its freedom

A wider market is sought

THERE ARE growing mutterings that the government is considering lifting the remaining restrictions on Turkey's fledgling gold market.

Three years after gold trading was approved, officials are studying the possibility of freeing the import of gold, which is still a central bank monopoly, opening a refinery, and making a paper-based market to trade in the precious commodity.

With the republics of the former Soviet Union searching for outlets for their gold production, Turkey has revived the search for a gold trading market.

Mr Yarun Toruner, the head of the Istanbul stock exchange, is said to be considering establishing a paper-based market in the covered bazaar, where much of the gold trading currently takes place. Traders say such a market would provide a useful hedge for gold manufacturers. Turkey today has a flourishing jewellery business, fuelled in large part by the tourist trade.

Turkey is also a hub of a large regional trade. The country is the largest gold consumer in the Middle East. According to Gold Fields Mineral Services, of London, the Middle East accounts for about 20 per cent of the world's supply of scrap gold. The World Gold Council recently opened an office in Istanbul. Gold News, a magazine for the trade, now has some 3,000 local subscribers.

The country is still considered a cheap place to buy gold. In 1991, the central bank sold 112 tones. The Bank sells on a consignment basis, using two designated banks and 26 approved exchange dealers, at the official international price plus freight and insurance charges. Traditionally, about half the imports are re-exported as fabricated gold. Perhaps as much as 10 per cent of Turkey's imported gold is produced as the Republic coins.

In many Turkish families, gold is still held as a hedge against rapid inflation and a depreciating currency. Historically, many of the Ottoman government officials returning home after the collapse of the empire found gold a convenient commodity to bring with them. Traders also hope some of the 5,000 tonnes, which is estimated to be hoarded away, may come to the market.

The problem, as ever, is one of control. Before the mid-1980s, gold trading was an illicit activity. The establishment of an official market for the commodity is widely acknowledged as one of the best examples of Turkey's drive to liberalise its financial markets under the former Ozal administration.

John Murray Brown

Telecommunications: the Soviet collapse presents an opportunity

Aid plan to link new republics

IF THE central Asian heads of state attending last month's Ankara summit were able to get a line home, then they only have one organisation to thank for the service.

In the wake of the collapse of the Soviet Union, PTT, Turkey's state-run telecommunications company, is embarked on an ambitious project to join these former soviet republics with the Turkish telephone network; and, through Turkey's automatic transit system, to provide a communication link-up with 198 countries in Europe and beyond.

Officials are keen to stress this is an aid project, funded by the Turkish government budget, to help set up a basic telecommunications infrastructure. But the plan is a daring one, "gifting" technology today in the hope of long-term commercial gain tomorrow. It is one of a number of government projects now under way, to cement the growing political and economic ties between Turkey and its long-separated Turkish-speaking neighbours.

Renting space from Intelsat, and beaming a two-way transmission from dish antennae in each of the countries to an earth station in Turkey, the PTT has set out to satisfy the most urgent needs of government offices, embassies, businesses and hotels.

The first stage, a satellite link with the digital exchange in Azerbaijan, was inaugurated on May 3 this year. Kazakhstan is already in operation. Kygyzstan should be up and running next month.

Turkey's state telecom corporation will supply coin boxes, telex facilities and fax machines. Meanwhile, the country's private phone companies are installing public exchanges. Netaş, a former state-owned company, now a joint venture with Northern Telcom of Canada, has installed its DMS switching system in Kazakhstan; while Teletaş, part owned by Alcatel of France, is supplying its System 12 to Uzbekistan and Kygyzstan.

Initially, the PTT is supplying some 2,500 lines to each republic with the ability to increase capacity to 30,000 lines. In addition, local trunk lines within each country are being installed. Using the same system, Ankara is also beaming Turkish state television, and hopes to take their programmes in exchange.

The government is footing the bill. Mr Cengiz Anik, head of the international division at PTT, estimates the cost of what is in essence a turnkey project at around $20-25m.

The Central Asian link-up is just one of a number of projects now being handled by

The daring project envisages long-term commercial gain

PTT's international relations division – "PTT's window on the world," as Mr Anik calls it. Through the Sarp gate, there is now a cable link with Tiblisi, which means Georgia's telecom authority can tap into Turkey's international gateway switching system to transmit to Europe and beyond.

The PTT is also doing its bit to end the isolation of the former Yugoslav republic of Macedonia, still only formally recognised by Turkey and Bulgaria. Mr Anik says 60 lines now reach the capital, Skopje, through a "terrestrial" or land telecommunications link from Sofia, the Bulgarian capital. Through the Macedonia connection, Turkey is also able to communicate directly with Albania, which in turn is linked to Italy and the European mainland. The operations are apparently quite profitable. "We expect to make $150m from the division this year," says Mr Anik.

Taking their lead from PTT, Turkey's private telecom groups are venturing where others fear to tread. Even before the final break-up of the Soviet Union, Netaş had signed a $20m contract with Azerbaijan to supply digital switching systems for public exchanges, as well as the smaller Diçle rural exchange.

The deal envisages setting up a joint venture to manufacture the Diçle system with the Azeri state telecom company. Mr Tanju Argun, the company chairman, says the Netaş DMS family is the first digital switch to be installed in the former Soviet Union. Netaş has had to be very flexible on payment negotiations. Indeed, the company is understood to be taking payment in the form of aluminium and other resources under barter arrangements.

Netaş believes it has a product to match the market. The DRX-4 or Diçle rural exchange comprises 512 lines, and is ideal for village-size communities. The robust nature of the hardware means it is well suited to hard geographic conditions. "The switch is designed by customer input, not a technology-driven product," says Mr Argun.

The system, for example, is able to work in temperatures ranging from 0 to 50 degrees C, compared with 35 degrees for a normal system, and at altitudes of of up to 3000m. It is easy to install. It comprises what the technicians call a "fully distributed architecture, built on models and groups". The great beauty of the system is that the design means a local failure will have little impact on other subscribers.

"Its the easiest thing in the world to have two people talking. The much more difficult part is the maintenance and administration," says Mr Suat Baysan, of Netaş's research department. He estimates that, of the total software costs, 30 per cent is devoted to call processing and the rest tied up with administrative issues like billing.

Before the Soviet collapse, Netaş had been in discussion with officials at the Leningrad Institute of Technology, trying to unravel some of the problems. "But you can't just put an exchange there and assume it will work. Every state has different signalling systems," says Mr Baysan.

"Its like a museum," says Mr Argun, the Netaş chairman. "There are all types of products. And its going to take a huge R&D requirement to interface some of the products."

John Murray Brown

Textiles

Investment is needed to match rivals

THE TEXTILE and clothing industry, which is important to Turkey's economy, is entering unpredictable times. It needs investment on a large scale, and the ability to cope with competition at a time when the evolution of the Multi-Fibre Agreement (MFA) may be in question.

The MFA, in turn, depends on what happens next in the *global trade liberalisation talks* in the Uruguay Round under the General Agreement on Tariffs and Trade (Gatt). In the event of their failing, existing quotas under the MFA, designed to protect the industries of the richer countries, would remain. Whatever the outcome, Turkey must seek new export markets.

Within the manufacturing sector, textiles and clothing contribute 20 per cent to output, and employ around one third of all workers. According to the State Institute of Statistics, the value of the industry's exports has risen steadily, from $838m in 1980 (28.8 per cent of all commodity exports) to $4.3bn (31.8 per cent) in 1991.

But in order to compete with its main rivals – including China, Hong Kong, South Korea, Pakistan and Bangladesh – something like $6bn will have to be invested in modernisation over the next five years. This will involve updating weaving and spinning plant. Ninety per cent of spinning machines, for example, are more than 15 years old.

Modernisation is needed to offset the gradual rise in Turkish labour costs. At the heart of the problem is the fact that the government has, for political reasons, preferred to invest in (or to subsidise) farmers producing cotton, especially in the main growing regions around Izmir and Adana, rather than in textiles – paying as much as twice world cotton prices.

In terms of current political issues, the apparent stalling of the Gatt talks is, in one sense, bringing only partial *grief* to the Turkish textile industry. On the one hand, there was not enormous satisfaction with the planned 10-year phasing-out agreement of the MFA – theoretically agreed on within the context of a successful Uruguay Round. On the other, the absence of an operative MFA makes Turkey vulnerable to a growth of bilateral agreements and quotas.

The Istanbul Textile and Apparel Exporters Association (IKTIB), with its 10,000 members *producing something* like 80 per cent of exports in the sector, realises this.

The sector is not without problems. There is competition from producers in the Asian and far-eastern countries. These low-wage producers and their influence on the world market had the effect of causing lay-offs among the full employment total of about 2m.

IKTIB maintains that the competition from these developing countries is unfair, because of government subsidies. Indeed, in a rare case for a developing country towards another, in October 1991, Turkey imposed a 20 per cent anti-dumping tax, due to expire on December 10, on cotton yarn imports from Pakistan.

The principal market is the European Community. But here Turkey has run into difficulties, because of accusations of dumping which date back to 1981. Brussels relented to some extent, by announcing in October 1991 that it was dropping countervailing duties on imports of Turkish polyester fibres and yarns, following Ankara's agreement to phase out its subsidy on these textile exports. But in March the EC Council of Ministers imposed definitive anti-dumping duties on cotton yarn of 12.1 per cent, with exceptional duties of between 4.9 and 12.1 per cent for certain companies.

The EC, in particular, accused Turkey of dumping cotton yarn on the European market in 1981, and imposed then a 12 per cent tariff. Broadly, IKTIB does not regard EC textile trading policies as fair. Since then, tariff disputes have surfaced periodically. However, in November 1990, as part of Turkey's compensation for applying economic *sanctions* against Iraq, the US administration agreed to increase the quota for textile imports in 1991 by 50 per cent.

The evolution of Turkey's textile and garment industry as one of the major suppliers to the EC has taken place over the last five years. Overall, exports of clothing dominate. From $314m in 1981, they rose to $3.2bn last year, representing 69.6 per cent of the $4.6bn textile and clothing exports. Over the past decade, clothing exports, apart from dips in 1985 and 1986, have experienced substantial growth rates – 13 per cent in 1991.

The relationship with the EC, where Germany currently takes 65 per cent of Turkey's textile and clothing exports, is dominant. Three-quarters of textile and clothing exports go to the EC. In 1991, after Germany, Britain, Italy and France took altogether about 10 per cent. The role of Germany in this export pattern reflects the close economic and social relationship between the two countries.

According to IKTIB figures, Turkey is the world's seventh largest cotton producer, with the 1991-92 crop, estimated at 3.8m 480lb bales, accounting for 3 per cent of the world cotton crop. Cotton yarn production has grown steadily since 1967, and subsequently, as a result of government incentives in the early 1970s, at a swifter rate. Yarn production reached 500,000 tonnes in 1987 and has remained at about that level since, amounting to 530,000 tonnes in 1990. Within the total woven textiles industry, cotton woven fabrics have the highest share of production, amounting to 314,000 tonnes in 1990.

Turkey also produces all the major commercial synthetic yarns and fibres, with acrylic fibres in the lead, ahead of polyester yarns and fibres and polyamide yarn. Production of these, 215,000 tonnes in 1985 has risen.

The US market for textile and clothing exports, which amounted to $304.4m, or 6.6 per cent, in 1991, is expected to be increasingly difficult if protectionism strengthens. IKTIB takes some satisfaction from its high quality and supply-time response of five weeks for the EC, which it claims the Far East cannot match. But the formation of the North American Free Trade Agreement, linking the US, Mexico and Canada, could make the US market more difficult.

Some compensation could come from exports to the neighbouring countries of the former Soviet Union, and to South Africa. Closer production co-operation with Japan could also result in an increase in exports. But growth potential lies more in ready-made garments than with textiles. However, much will depend on government investment policies.

Anthony McDermott

Cotton production and use

	Production (tonnes)	Capacity use (%)
Woven cotton		
1985	254,000	93.4
1986	259,000	89.6
1987	282,000	94.3
1988	290,000	93.2
1989	307,000	93.8
1990	314,000	89.0
1991	302,000	83.2
Cotton Yarn		
1985	400,000	90.7
1986	434,000	86.3
1987	500,000	91.4
1988	515,000	90.8
1990	530,000	79.7
1991*	484,000	67.9

*At end-1991, production capacity was estimated at 713,000 tonnes. *Source: Industrial Development Bank of Turkey*

Textile and clothing exports

	Volume ('000 kilos)	Value ($bn)
1990:		
Textiles	373.6	1.4
Clothing	184.9	2.9
Total	558.5	4.3
1991:		
Textiles	385.8	1.4
Clothing	210.0	3.2
Total	595.8	4.6
1992 (Jan-July)		
Textiles	185.3	0.8
Clothing	133.7	2.2
Total	319.0	3.0

Source: Industrial Development Bank of Turkey

The industry's labour costs are rising   Picture: Terry Kirk

John Murray Brown explains the foreign interest in cement

State sell-offs prove inviting

CEMENT, like so many of the industries attracting foreign interest in Turkey, is booming for one simple reason – the *country's vast underdeveloped home* market.

The point is often missed by those preoccupied with Turkey's role as a regional trade hub; but, like cars and the food and beverage industry, the most exciting sectors are those narrowly focused on the increasingly prosperous Turkish consumer.

Cement is one of the most promising. Foreign interest is rising, in anticipation of the sale of 11 state-owned companies, the results of which are expected to be announced before the end of the year. Faced with the new competition, the large domestic producers are pushing through their own *modernisation plans* to stay in touch.

"We come here to acquire market share," said Mr Pierre Conso, the former head of Société Ciments Français (SCF), during a visit to Ankara last year.

European cement concerns, stifled by a downturn in activity in their home markets, are looking to Turkey to boost their balance sheets. The strategy, as in the car sectors and the food and beverage industry *where there has also been a surge of* foreign interest, is to tap into Turkey's large and still relatively undeveloped local market.

"Turkey is one of the last European countries where we see real growth prospects," says Mr Claude Grinfeder, head of SCF's East European Division." We didn't know the market, but we knew our product."

Production, at around 28m tonnes a year, is equivalent to the amount of cement sold in Spain or France. But more important, sales are growing at around 4-5 per cent, according to Adnan Ignebekcili, president of SCF's local Turkish company, Set Group Holding. Analysts, looking at the level of average annual consumption, believe the country still has a way to go.

"This growth will continue," says Hacı Sabancı, head of the cement division of the local Sabancı Holding Group, Turkey's largest privately owned industrial conglomerate.

Demand in the housing sector is rising, as home-owners try to hedge against rampant inflation. What is perhaps more surprising, *the market for cement seems to* have been little affected by the government's decision to cut back on public infrastructure spending.

The Turkish cement market tends to be highly regional. For example, it is not easy for producers in Izmir to break into the Istanbul market, as they discovered last year, during a brief price war. The cost of transport and the lack of a good road and rail system has proved a disincentive to competition, and helps to explain why small producers, with plants with less than optimum capacities, are able to survive. In Turkey, 80 per cent of sales are still made in sacks; the rest is bulk sales. *In Europe the reverse is* true.

Undoubtedly, part of the catalyst for all this activity was provided by the arrival of the big foreign players. Many of the local concerns were clearly taken by surprise. In some quarters, the issue provoked a chauvinistic reaction with industrialists openly voicing opposition to the policy of selling state assets to foreign groups.

Indeed, in 1989 SCF, the French group, found itself caught in a legal dispute, after deputies took action in the courts to have the sale declared illegal, on the grounds that the companies had not first been offered to domestic buyers. Ironically the deputies were from the party of the current prime minister, Mr Süleyman Demirel, when he was still in opposition. Earlier this year, Mr Demirel was invited to preside over the opening of SCF's latest investment, a $70m expansion of its clinker plant near Ankara – an irony not lost on local commentators.

Sabancı, Turkey's largest producer with around 15 per cent of the market, welcomes the foreign competition. Mr Hacı Sabancı says this has forced the local companies to diversify their product range and make investments which they might otherwise have postponed. Cement is now Sabancı's second most important business. *Mr Sabancı is one of five* brothers who run the holding company, believes the company will remain a force to be reckoned.

"Italy was at the bottom of the world league table, and now they're the largest cement producer. *The only thing in our* minds is to how to achieve that sort of growth," he says.

The company is now examining some of the 11 companies slated for privatisation. "It's impossible *to* build a new plant, because of the cost of land."

Ten years ago, Citosan, the state company, controlled more than 50 per cent of the market. Today, privatisation provides the opening for a number of foreign groups to enter the Turkish cement market. In 1989, in the first round of sales, Ciments Français invested $105m in the Turkish cement sector, buying five plants. In 1990, the company purchased a sixth and embarked on a major expansion into ready-mixed concrete, pre-fabricated products and aggregates. All the factories are located inland, another reminder of the fact that this is not an export business. The company says it has also spent $42m on modernising the plants and installing environmental controls.

Following in its wake, Lafarge Coppee, the French group now the world's largest producer of building materials, acquired *the Aslan Cimento company through* a private share placement by the state-owned Isbank. The plant, one of Turkey's largest, with capacity of 1.5m tonnes, accounts for about 20 per cent of the key Istanbul cement market.

Lafarge has also bought a clinker plant near Ankara, and plans to use the site to build a full cement works in an area where the company estimates that there is still under-capacity. The company is now developing its presence in the ready-mix market, which industry officials say is growing by 25-30 per cent a year. The company bought into the Istanbul market, through its purchase of the local Ekmel Beton.

With the latest round of sales by the privatisation agency, an estimated 18 per cent share of the Turkish cement market is available. The French groups, SCF and Lafarge, have both made offers. Local municipalities have set up companies in order to be able to bid for the local cement factories.

THESE ARE trying times for Turkey's defence industry. After all the encouraging words for the country's robust role in the war against Saddam Hussein, Turkey can be forgiven for feeling a little let down by its allies.

As if an embarrassing tussle with German parliamentarians over the rules for the use of military aid equipment was not bad enough, worse was to come with the decision by the US Congress on October 6 to end the programme of grants for the Turkish defence effort.

Although Turkey was only a spectator – if a rather close one – the Gulf war did much to underline the shortcomings in mobility and firepower of its own armed forces.

Turkey has a number of joint defence collaborations with foreign companies. The priorities are well known – electronic warfare, real-time communication and mobility and agility. The broad challenge, as identified by Gen Dogan Gures, the chief of general staff, is not just to modernise the armed forces, but how to standardise the military's diverse supplies, which was one of the original arguments for pushing ahead with a homegrown defence industry.

The army, however, has had its differences with the civilian-run defence procurement agency (SSM). The question, as ever, is whether SSM, in its efforts to maximise the amount

The defence industry

Review follows as US cancels grants

Congress's decision is a major setback, says John Murray Brown

of local production, is able to deliver what the generals really want.

Having once been the favoured industrial child of the former Motherland party administration, the Demirel coalition, too, seems to be less enthusiastic about SSM's procurement strategy.

Indeed, when the prime minister came to review progress on the various SSM projects at the start of the year, he was said to have been shocked by the size of the financing involved. He immediately called for the re-tender of a large military helicopter contract, to see whether it made sense to have an off-the-shelf purchase of a smaller number, rather than committing millions of dollars to a long-term industrial collaboration.

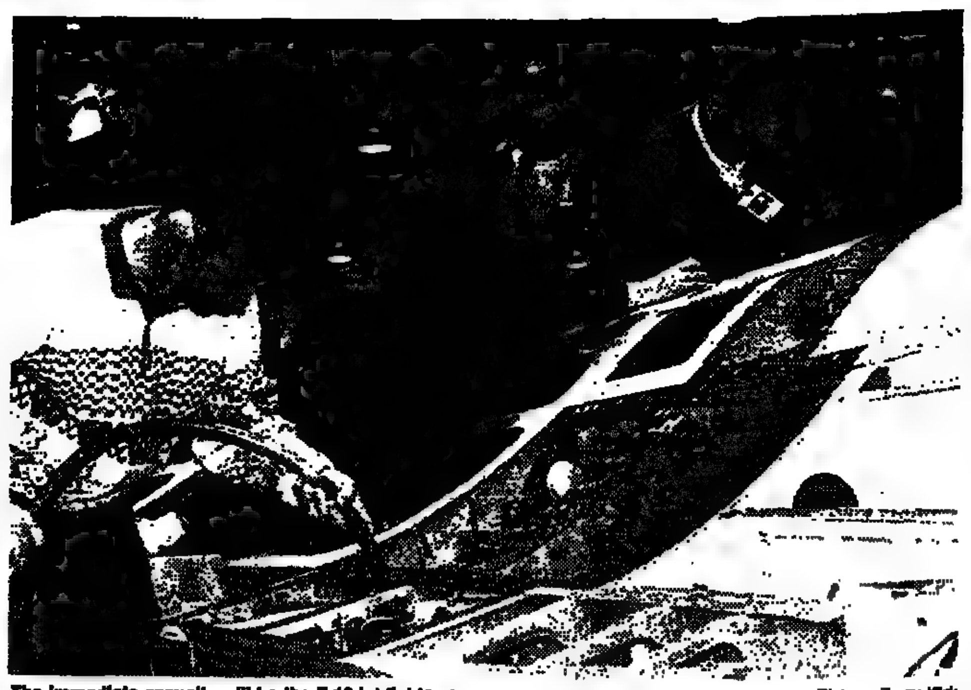
It was not just the financial imperatives that determined the need for a policy review of the defence programme. Mr Süleyman Demirel is under growing pressure to provide enhanced firepower for the military in its increasingly bloody fight with Kurdish separatists in the south-east of the country. In the event, Turkey awarded the contract to United Technologies, the long-running favourite with its Sikorsky Black Hawk multi-purpose helicopter. However, the contract called for an immediate delivery of 25, with the remaining 50 being built under a joint production arrangement.

In other areas, too, the procurement agency has had its wings clipped. The armoured personnel carrier built in co-operation with FMC of the US is still having problems. The agency cancelled a contract awarded to Texas Instruments of the US for night-sighting equipment for the vehicles, after disappointing trials in the US. There were also earlier problems with the engine capability, and the gun.

Giat of France recently was awarded the contract to supply the 25mm gun and turret, after another wrangle with the Swiss over the supply of its Oerlikon gun, widely seen as the best product on offer. Berne earlier suspended all arm sales to Turkey over its Kurdish policy, a point which was not lost on the generals when it came to retendering for the gun.

Ironically, the latest move by the US Congress could provide ammunition for those in SSM, championing the cause of an indigenous manufacturing capability. Turks need little reminding of the time, after Turkey's invasion of Cyprus in 1974, when the US placed an arms embargo.

According to the foreign aid bill, Turkey, like other Nato southern-flank countries, will now receive low interest credits. In 1992, the US pledged $475m in grant form, the lion' share to be targeted at the F-16 jet fighter project. Earlier this year, Turkey signed a supply contract with Egypt, and is hoping to tap into the $4bn Gulf Defence Fund, set up by the US and its Arab allies in the wake of the war against Iraq.


The immediate casualty will be the F-16 jet fighter programme — Picture: Terry Kirk

But the Congress decision clearly represents a major setback, and for many officials is seen as a harbinger of things to come in military relations with the US. "Disappointing," was the conclusion of the Turkish foreign ministry. The decision "does not give the impression of a coherent policy," a ministry statement complained.

"We have to have a credible military force. In that sense, the congressional decision had a very negative impact on our ability to assume our new responsibilities," said a senior Turkish diplomat.

The immediate casualty will be the F-16 jet fighter programme, which was heavily dependent on US funds under the Foreign Military Sales (FMS) programme.

In both 1988 and 1989, the Turkish treasury sought a refinancing of some of its outstanding credits under the FMS programme. A similar move is not ruled out today.

The continuing crisis with the Germans will further underline how Turkey is subject to the political whims of its first-world arms supplier. This dispute followed television pictures of the BTR-60 armoured personnel carriers being used to put down Kurdish demonstrations in March.

The BTR-60, a former East German weapon, was given to Turkey as part of the Conventional Arms in Europe disarmament agreement, whereby arms from the richer Nato partners would replace the older equipment of the poorer members – the so-called cascade effect. The German arms were to be used expressly for Nato defence purposes. The TV pictures therefore brought howls of protest, and led indirectly to the resignation of a German minister and the imposition of a ban on arms shipments to Turkey.

The issue came up again in last month, when Turkish newspapers carried pictures of a body being dragged on the ground by one of the BTR-60s. The crisis has now taken another twist, with the plans of the Turkish interior ministry to buy the same vehicle from the Russians. Mr Ismet Sezgin, the interior minister, was in Moscow in October finalising a deal which should allow the Turkish security forces to use the mixed stock of BTR-60s with impunity against the Kurds.

IT WAS a rousing occasion – the Hebrew Chorus performed by the Turkish state opera company, before an audience of the best and brightest of Istanbul Jewry.

The Jewish community has made a big contribution to business life

Languages and contacts

Verdi's Nabucco was just one event in 1992, in a spate of celebrations to mark the 500 years since the Sephardic Jews were expelled from Spain by Ferdinand and Isabella, to find a new life in the Islamic world of Sultan Beyazit II.

"In impoverishing Spain," the Sultan is said to have remarked, "the expulsion will enrich Turkey."

Nowhere is this more true than in the business community, where Jews play a leading role in Turkish corporate life. From sectors like textiles, where they have traditionally been strong, to heavy industry, the 20,000-strong Jewish community has made a big contribution to Turkish business life.

Equally successful, if less conspicuous, are those Jews who control much of the activity on Istanbul's Tahtakale money market. "Even today the rate for the dollar is still set by the Tahtakale. The Jewish wholesalers are the bankers of this country," says a producer of women's lingerie.

'In impoverishing Spain, the expulsion will enrich Turkey,' said the Sultan

Just as the first arrivals in 1492 brought the art of printing, and even cannon construction, to the Sublime Porte, the Jews today, with their language skills and their contacts in the markets of Europe and the US, have played an often pivotal role in the development of some of the Turks' own groups.

In his memoirs, Mr Vehbi Koc paterfamilias of Turkey's biggest trading house, openly acknowledges the contribution to the company's success of two prominent members of the Jewish community – Bernar Nahum and Isak de Eskinazis.

Mr Nahum, who started his career with Ford Motor, was an invaluable partner when the young Mr Koc started his auto business, initially making the Anadol, before forming a joint venture with Fiat of Italy, an operation which dominates the Turkish car market today.

Others have emerged on their own. Mr Işak Alaton's Alarko Holdings is one of Turkey's most successful construction companies, building everything from sewage plants for the Istanbul municipality to hotels in Moscow and other cities in the former Soviet Union. Another well-known name, Vitali Hakko, started his career making felt hats. Today he owns and runs Vakko, Turkey's leading fashion house.

It would be difficult to put a figure on their contribution to Turkey's economy. Certainly, personal fortunes have been made. The display of cosmopolitan elegance at the Atatürk Cultural Centre, in Istanbul, might have graced any opera house in London or Paris.

"It's very strange, but when the Ottomans were in Palestine, none of the Turkish Jews chose to leave," says Mr Silvyo Ovadya, editor of Şalom, the official newspaper of the Jewish community. Şalom today publishes seven of its eight pages in Turkish. Before 1983, the paper was produced in Ladino, a medieval Spanish comprehensible to Cervantes but increasingly unknown to Turkey's younger generation of Jews.

"I think some of the businessmen are reluctant to drop the cult of the wandering Jew," says Jak Deleon, restaurant critic and professor of English at Istanbul's Bosporus University.

Some habits are certainly difficult to break, like the weekly visit to Istanbul's only remaining Kosher restaurant, now run by a Moslem Turk. In her documentary film, *Si je t'oublie Istanbul*, Nora Seni describes how


Işak Alaton heads one of the most successful construction companies

Istanbul's Jewish families still retreat to their large wooden houses on Büyükada island, during the hot summer months. Many of the rich Jews prefer to fly to a south coast resort and sit in more stately splendour on their yachts.

"We're not a typical Jewish community," says Mr Jefi Camhi, of Profilo, a leading consumer electronics group. "We're from both worlds, Sephardic and Ashkenazic. In Britain there was a time when Jews were restricted from certain trades. In Turkey there has never been any restrictions."

There was, of course, the Varlik Vergisi – the infamous wealth tax imposed on the Jews and the other official minorities, the Greeks and the Armenians, during the second world war, when an estimated 5,000 people were sent to labour camps for failing to pay the tax.

Eli Aciman was one Jewish businessman who suffered as a result of the Varlik Vergisi, eventually leaving for the US. He later returned, and today runs Turkey's largest advertising agency, in partnership with J. Walter Thompson.

But the community remains particularly vulnerable to another shift in Turkish attitudes – this time perhaps a shift in Turkey's western orientation to play a more Islamic role.

Significantly, it is Mr Jak Camhi, Jefi's father, who is now a leading voice in the campaign to have Turkey accepted as a full member of the European Community, heading a business association which directly lobbies Brussels – so far without success.

John Murray Brown

Privatisation: the government has set an ambitious target

Discord over use of revenues

PRIVATISATION of Turkey's state-run economic enterprises (SEEs) and of the government's participation in local companies is causing much debate and uncertainty.

The state has an interest in 235 enterprises, either as a majority shareholder, an affiliate or a minority partner in a privately-managed concern. There has long been agreement in principle that the SEEs are in need of reform, not least because of the heavy demands they make on the public spending borrowing requirement (PSBR).

Reform has also been seen to be in the interests of greater *economic and financial efficiency* and the promotion of wider share ownership.

But under the coalition government of Mr Süleyman Demirel, residual opposition to foreign ownership within the economy has been resurfacing.

Where the debate has become complicated is over the use of the money earned. The government wants earnings to help offset the budget deficit. Foreign bankers fear that money generated by the sales of government holdings is going into a "big black hole" and not being used for investment in productive assets. They express doubts about the long-term planning of the authorities handling privatisation.

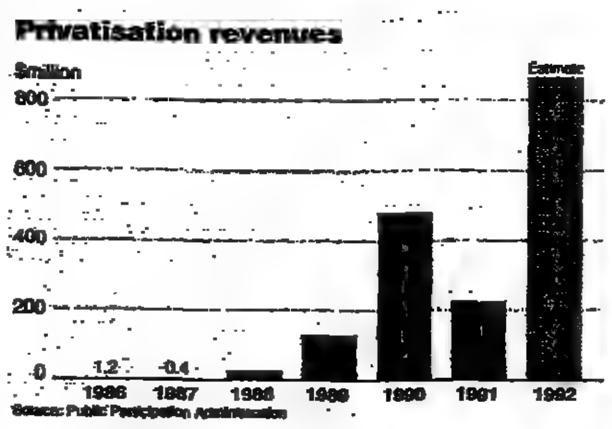
By contrast, the Public Participation High Council (PPHC), the decision-making and executive body of the privatisation programme, and the *Public Participation Administration* (PPA), the agency responsible for the planning and execution of the programme and entrusted with selling the state's shares in companies, feel that the earnings should not be used for offsetting the budget deficit.

Mr Üstün Sanver, the PPA's president, argues that the funds brought in could be put to more productive use – not least to convince the Turkish public and potential foreign investors that there are benefits in the privatisation of enterprises that have been, since the end of the 1920s, central to the economic philosophy of Turkey – state capitalism.

Confusion over the running of the privatisation policy was also reflected by the establishment this year by the new government of Töyök, an independent professional agency to restructure the 120 companies in which the state has a majority, in preparation for sale by private block sale or public offer. The intention was to *depoliticise the privatisation* issue. However, Töyök has not yet received the legislation to operate.

The first steps towards disposal of SEEs came early in 1984. By the different methods of sales, the PPA records that, between July 1986 and July 1992, 26 companies were privatised by block sale amounting to $144.1m. The majority were in the animal-feed, food-processing and beverages sectors.

Twenty-three companies privatised by public offering over the same period brought in $401.6m. They were mainly concerned with heavier industries, including electricity production, cement, and motor manufacturing.



This year, the PPA is embarking on new tactics to speed up privatisation. According to Mr Sanver, negotiations should have been complete for the transfer of the most successful sector privatised – 11 cement companies – after a series of bid negotiations resulting in more than $400m of sales. Along with completed selling of the state's stake in telecommunications companies such as Netaş (49 per cent) and Teletaş (18 per cent), and also in Sekerbank, Konya Şeker, a food-processing company, the vehicle manufacturers TOE, and a mining company IDC, this could all bring in $758m this year. While this falls short of the projections, it does illustrate the fact that privatisation revenues for 1992 are not that far short of total revenues accrued during the previous six years.

Whereas, previously, there was a protracted series of bidding rounds, in future a minimum acceptable appraised value is to be announced. Block sale would then be awarded to bids above or close to that value.

In the first three months of next year, under this new pattern it was hoped to complete the sell off of three companies *in the agro-industry sector:* SSK (dairy products), EBK (fish and meat processing) and 26 country-wide animal feed plants. But Mr Sanver said last month that, "as a technician", he did not think their privatisation would be possible "in today's conditions".

Plans for 1993 include 17 companies, mainly in the food-processing and beverages sectors, but also in the automotive industries. The intention, under preliminary PPA studies for the 1994-98 period, is to target much larger undertakings. Under consideration are the state-operated iron and steel sector, the state-owned petrochemical, petroleum, refining and distribution sector, electricity production and distribution, and the state-owned banking sector. Over the next five years, the PPA said in a position paper last month, its target was to privatise at least 30 per cent of state shares and to generate approximately $10bn.

The PPA is aware that there *are battles to be fought on two* fronts, at least. The concept of the benefits of privatisation have to be sold to the public, and it has embarked on a series of country-wide seminars and conferences.

But beyond the exercise of *persuading* the Turkish public and foreigners that privatisation is worthwhile, there are local difficulties to be worked out. The PPA disapproves of the Treasury's plan to take 50 per cent from the sale of state holdings for current expenses (i.e., the budget deficit). It points out that it funds a considerable number of infrastructure projects.

The PPA is also aware that the search for greater efficiency through privatisation will lead to job losses. The PPA, the SSK (the state workers' social insurance agency) and the Treasury are conducting separate studies of how to provide retraining and relocation for displaced workers.

There remain some acute and perennial problems. The costs of the existing SEEs to the PSBR, as a proportion of the GNP, remains high and is a drain on the budget. This is where the argument comes in that income from privatisation should help offset this deficit.

The whole programme, especially as it moves into the bigger privatisation proposals for heavier industry, is also limited by the ability of the Istanbul stock exchange to sustain large-scale flotation of state-owned assets. The PPA is proposing the establishment of a savings fund, based on the wages and salaries of workers, which could be invested in debt securities. In return, these could be invested in the most successful privatised shares. This would, in theory, help to make people aware of the benefits of privatisation and sound shareholding.

But the privatisation programme remains under intense discussion. Indeed, as its status and evolution is debated by different branches of the government, doubt becomes apparent about commitment to pursuing the policy fully.

Mr Demirel, at a conference last month, caused some confusion by acknowledging that it had to be carried through, with the priority given to the most saleable sectors. It was a statement which muddied the privatisation policies' priorities and which tended to underline his lack of conviction on the issue.

Anthony McDermott

John Murray Brown on the problem of state-owned enterprises

Printing money to meet the loss

THE APPETITE of Turkey's state-owned enterprises for funds is widely acknowledged as a threat to the stability of *the economy, yet the politicians* have been unable to come up with a solution.

The state has a stake in 235 enterprises, ranging from public utilities, basic metals and mining, to trading houses and department stores. Total losses of all the state-owned corporations come to around $3bn, or 2 per cent of gross national product.

The financing of these losses, generally through printing new money, has added to the burden on the budget, and is estimated at around 4 per cent of GNP. In addition to the financial losses, their share of gross fixed investment, while declining, is still about 16 per cent of the total, concentrated in the sectors of energy, transportation and telecommunications. Their demand for funds crowds out other borrowers, and, *in cases* where they receive support direct from the treasury, adds to the fiscal imbalance. Employment is close to 600,000 and has risen in recent years, despite declining financial performance.

The initial task for any government *is how to convert* these concerns into joint stock companies under Turkey's commercial code. Regulatory reform, particularly in the utilities and other sectors enjoying natural monopolies, needs to be enhanced. *Without* such measures, any future reorganisation will only become much more costly.

> Regulatory reform, particularly in the monopoly sectors, needs to be enhanced

Economists say a political, as well as a business, decision has then to be made as to which are to be privatised and which closed down. The government is said to be considering contracting out the management of privatisation; *however, this does not address* the need for a political commitment to decide the fate of these state-sector companies.

Efficiency, manning levels, quality of management: in all these areas the state businesses have fallen woefully behind the private sector. A World Bank report on the sector suggested the main problem was that the companies are "not run as commercial enterprises but as government departments".

Under their articles of association, many have inherited conflicting tasks. Take Tekel, the state tobacco monopoly, which is directly controlled by the finance and customs ministry – indeed, its chairman, Mr Mehmet Akbay, is a former tax expert at the ministry. Tekel not only has 80 per cent of the cigarette market, it also has a statutory obligation to *buy tobacco from the farmers* at a subsidised price set by government.

In the late 1980s, in the face of market liberalisation and the arrival of foreign imports, the company invested heavily in new product lines. Its 2000 brand of blended cigarette is still more successful than the imported Marlboro product. Indeed, imports have fallen recently. However, Philip Morris is now investing in a plant in Turkey, and, under new investment rules, once production reaches 2,000 tonnes, will be able to market and distribute its own product, and eat into Tekel's market share.

Perhaps even more than the liberalisation of the sector, Tekel is suffering from the burden of its price support activities. Like many state companies, it has built up stocks, incurring warehousing *fees and tying up badly needed* working capital.

Large inventory accumulation is a feature of many of the agriculture-based state economic enterprises, partly as a result of the abundant harvest in 1990, but to a larger extent because of the generous levels of support prices, which are typically well above world levels. Clearly, any reform of the farm-based state enterprises will have to go hand in hand with changes in the subsidy policy, which for so long has been seen as a universal cure for an ailing agricultural sector.

Mr Süleyman Demirel, the prime minister, has proved equivocal on the state-sector issue. He publicly acknowledges the need for reform. Yet his only contribution so far has been to bail out Metas a private-sector iron and steel company. *In effect, Metas's* debts to state-owned banks were converted to equity. The state has thus taken a new stake in a troubled private concern, a policy favoured in the import substitution years before 1980, but which led to the plethora of minority stakes in so many private companies today.

On the fate of Zonguldak, the loss-making hard coal company on the Black Sea, Mr Demirel says it will be impossible to close it down. The mine employs 50,000 people, and there is little alternative work in the area. Mr Demirel's Social Democrat coalition partners might be even less inclined to consider closure of state companies like Zonguldak, which have traditionally provided the party a steady supply of votes.

The issues are gargantuan. *First, the companies need to* adopt the disciplines of the market-place. At present, not being subject to the commercial code, their performance is not subject to the provision on bankruptcy. Managers are civil servants, and earn civil *servants' salaries, which has* proved a disincentive in attracting quality personnel.

Economists say pricing is too often related to political decisions. For example, in the run up to the election in 1991, the Motherland party government restrained prices in a bid to hold back inflation in the weeks ahead of polling day.

> The minister wants to set up a new agency to handle the restructuring of these companies

The dramatic 11 per cent increase in January was largely a measure of the price increases which state enterprises had to make to cover their deficits.

Their accounting methods also leave a lot to be desired. *Moreover they have tended to* disguise their dismal financial performance by making deferred payments, arrears and, in the case of the grain procurement board TMO, looking to the central bank to fund their activities. In many *cases the problems of the state* sector banks relate to the non-performing loans extending to the state sector enterprises.

Mrs Tansu Çiller, the economics minister, is pushing, so far with little success, to set up a new agency to handle the restructuring of these companies. Critics of her proposal say it would merely create another layer of bureaucracy, and would still not address the fundamental issue of whether there is the political commitment to shake up the state sector. However, the OECD, in its latest report on the Turkish economy, welcomed the move.

Some companies are making efforts to ready themselves for privatisation. Turk Hava Yollari, the national airline, for example, is now looking at its fleet sizes and yields, and is planning strategic alliances. But in general the public sector *appears to be drifting further* into trouble.

John Murray Brown

Broadcasting: technology has made the old laws irrelevant

A new channel every month

Emine Uşaklıgil explains how satellites have provided the loophole that has been exploited and led to 'media shock'

IN THE past three months, Ahmet Ozal, the 36-year-old son of Turkey's president, has spent between $20m and $30m on launching a new television channel.

Every now and then, questions are asked about how he put together this money. His answer – by successful use of bank credits and oil trading – is as striking as the phenomenon he has come to symbolise, the explosion taking place in Turkey's air waves.

The young Ozal's new venture, Channel 6, is his second foray into television. In 1990, he was one of the founders of Star, the first private channel in Turkey; and, although he and his partners later split up, his initiative carved a route which others have since followed.

In 1989, there were a mere three channels, all run by the Turkish Radio and Television Corporation (TRT). Today there are 11, with new channels being launched at a current rate of one a month. This "media shock", as it is dubbed by Jeffi Medina, president of the prominent advertising agency, Manajans/Thompson, means that the number of private channels has already reached six, while the five state channels include one broadcasting to the Turkic Republics of Central Asia.

This rapid growth is not the result of deregulation. Instead, technology has made the laws of the past irrelevant. The 1982 Constitution gives the TRT a monopoly on establishing television and radio stations; but, under a 1924 law, all telecommunications services in Turkey are the exclusive preserve of the Turkish PTT.

As now interpreted, this means that the PTT alone has the right to operate landlines and telecommunications satellites serving Turkey, and it is the PTT which leases channels and transponders from Intelsat and Eutelsat and which controls licenses for TVROs. The TRT's eight transmitter directorates are connected to the PTT which established a Radio and Television Department in January 1989.

However, neither the PTT nor the TRT can stop broadcasts from satellites with a footprint covering Turkey – and this is the loophole exploited by Turkey's new channels. The present government has promised to amend the constitution and law to allow private-sector broadcasting.

In common with many promised areas of reform, progress has been slow. But, as one television executive says: "The present situation suits all the present players. The government has more potential control over us than it would if clear regulation existed. The broadcasters are able to proceed without interference, with several potential new entrants discouraged."

Most prominent among those waiting for a clearer legal structure is the planned joint venture of Turkey's Koç Group and Time Warner. Apart from Show TV (a joint venture of the banker Erol Aksöy and Hurriyet and Sabah newspapers), those already in the field are: the Uzan family's Interstar and Teleon; HBO, in joint venture with the Has Group; Ahmet Ozal's Channel 6; and Istanbul Municipality's BRT. In radio, a similar mushrooming has occurred. In the provincial city of Denizli alone, four small radio stations have been set up.

All this means that Turkey's viewers no longer have to rely on the sedate diet fed to them by the TRT. Instead, the new channels offer a glitzy reflection of the consumer society which has burgeoned in Turkey's major cities.

They are pushy, slick and dominated by dubbed US programmes and quiz and talk shows. Local programming is limited. This is particularly so in news and current affairs, where Show TV's fortnightly 32nd Day, produced by Mehmet Ali Birand, stands head and shoulders above the dull rest. Educational programmes and documentaries are conspicuous by their absence.

However, doubts exist about the financial viability of many of the stations. Few controlled their set-up costs, and now there are too many stations fighting for the advertiser's dollar. Even if it is rising fast, per capita advertising expenditure is a mere $10-12 a year, compared with $150-200 in western Europe.

In this situation, advertisers are beginning to become selective. Rating agencies, though inadequate, confirm that Show leads the field with over 25 per cent of the audience, followed by Interstar, with Channel 6 attracting less than 10 per cent.

Stations like Interstar seem to depend largely on in-group advertising, and zapping has become the bogey of the moment. The advertising world has suddenly woken up to the way that viewers are no longer sitting passively when the commercial break comes, but switching from channel to channel.

The dynamism in this area is not yet matched where cable television is concerned. A cable television infrastructure was to be completed by July 1992, connecting 2m subscribers in 10 cities. Today, less than 30,000 homes are connected.

The surge in television advertising has hit the newspaper industry. In the first nine months of 1992, this received 52 per cent of the advertising expenditure, compared with 57 per cent in 1990. Overall circulation and readership remain among the lowest in western Europe. However, the division between television and newspaper companies is becoming progressively blurred.

Sabah, a founding partner in Show, is now establishing its own channel, Satel. Hurriyet, also a founding partner in Show, has established its own production company. Of the major newspapers, only Milliyet has yet to declare its interest or show its hand. For the smaller newspapers, the outlook is bleak. Advertisers are being increasingly offered cross-media packages. As a result, small may be beautiful, but it is also progressively lonely. Meanwhile, a telemarketing channel is about to be launched – by Ahmet Ozal.

☐*The author of this article, formerly managing director of Cumhuriyet newspaper, is now managing director of IF film production and distribution agency.*

And when they get bored, there's limitless television waiting at home Picture: Terry Kirk

Patent: the pharmaceuticals industry is impeding progress towards a new law

EC partners and US apply pressure

MORE THAN 40 years after the first draft was prepared, Turkey is still struggling to put a modern patent law on to the statute books. Today the issue is back on the agenda, with legislators under growing pressure from both the US and the European Community, and from a government publicly committed to meet the standards set by the country's trading partners.

The sticking point, as ever, is the question of pharmaceuticals, an industry which depends vitally on patent. Battle lines are now drawn between the foreign multinationals keen to protect their inventions, local drug companies fearful of losing market share, and a health ministry concerned to contain drug costs.

Drug patent remains a sensitive issue, even in developed countries. In Turkey, the commercial interests of the foreign drug companies seem increasingly at odds with the health needs of the broad mass of the population, at a time when the state-run health insurance Scheme is all but bankrupt.

The debate might seem somewhat academic when you consider the number of products which will be directly affected by the legislation. In a Turkish market worth around $1bn in 1991, patentable drugs account for only around 20 per cent of sales; and besides, the law would not affect products already on sale. According to one calculation, the introduction of a patent law would result in price increases of around $25m. The foreign drug companies insist that this is not a financial question.

They point out that, of the 72 patentable products, 24 are currently being imitated by 200 locally produced generics, the cheap copies of off-patent brand name products. This pirated trade represents less than 7 per cent of total sales.

The drug companies' case is that patent is necessary to encourage invention. The protection provides a brief and well-earned monopoly for the inventor. Without it, the research base on which the industry's future depends is endangered. Patent could also stimulate an indigenous research effort. "They all have research and development units, yet all all they do at the moment is reformulate someone else's products," says one somewhat aggrieved drug executive.

"The law was prepared for Turkey and not to please anyone else," says a leading member of the government commission set up to prepare what will be the first revision of a 1879 patent law. Nonetheless, the international pressure to address the issue is growing. The US has not ruled out resorting to powers provided under the 301 clause of the 1989 Trade Bill, which could affect Turkey's preferential trade tariffs on textiles and other key exports.

> The commercial interests of foreign drug companies seem at odds with the health needs of the population, at a time when the state-run health insurance scheme is all but bankrupt

Mrs Tansu Çiller the economic minister, discussed the issue with Ms Carla Hills, the US Trade Representative during a visit to Washington earlier this year. EC officials are insisting that patent legislation is part of Turkey's commitment to provide free movement of goods and services under Ankara's 1963 association agreement with the Community.

With the draft now going the rounds of ministers and committees, the lobbying has become frenetic. At a conference in June, Dr Alberto Aleotti, chairman of the International Pharmaceutical Producers Union, was invited to present the case for patent. Turkey, he said, "has great market potential in Asia and the Middle East, but cannot penetrate these markets with copied products."

In Ankara, in October, the presidents of the Austrian and Bulgarian patent offices, among others, spoke on the issue at a seminar organised by the Trade and Industry Ministry - an exercise to steel the nerves of Turkish lawmakers before the draft goes to parliament.

Mr Tahir Kose, the trade minister, promised the package would be passed by the end of the year. The draft, however, appears to be stuck in the State Planning Organisation. Moreover, much to the annoyance of the foreign concerns, the SPO, in alliance with the health ministry and the powerful local drug concerns, has introduced the new concept of a transition period for the application of the law.

"In effect, the Turkish industry has already had a transition period of 32 years. If that is not enough, they will never catch up," says one aggrieved foreign producer.

"If you're planning to be present in the international market, you have to have a patent law," says Mr Ayhan Suskun, head of the pharmaceutical division at Eczacibasi. "But the important point is, how soon." Eczacibasi is said to be one of the main companies lobbying for a transition period, which might seem somewhat curious given that 70 per cent of the company's turnover is made up of drugs produced under license with foreign partners.

Patent lawyers are even arguing about different transition periods for process and product patent, but foreign companies say this misses the point. The issue, they say, is to provide pipeline protection, a concept adopted in bilateral patent accords between the US and some of its trading partners. The idea is to protect a product from the time the molecule is invented through the clinical trials to the moment the drug is finally approved by the public health authorities. At present, there is no such provision in the law.

"When we submit molecules for registration, it may take another 10 years before we develop the product. What this new law implies is that no new molecules will be protected in Turkey for the next 22 years," says a US drug executive.

The other complaint is that Turkish legislation still makes no provision for clinical testing, which drug companies say is an essential step to encourage a domestic research industry.

The picture is fairly dismal. Patent lawyers, such as Kaan Dericioğlu, now believe the law may get derailed even before it reaches parliament. Mr Dericioğlu argues that it may be better to exclude pharmaceuticals altogether, to allow at least some form of patent legislation to go on the books. But as one foreign executive put it, more optimistically: "The government at least is now in a position to make the political choice."

John Murray Brown

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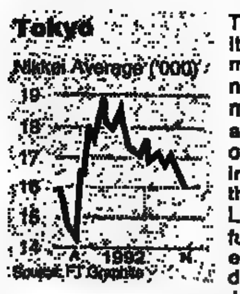
INSIDE

Peril on Tokyo's stock exchange



The Nikkei average is at its lowest for three months, having lost nearly half the gains it made after the announcement in August of a government spending package to revive the economy. Charles Leadbeater warns that further falls on the exchange could have dire consequences for Japan's economy and its banks, while Emiko Terazono reports on fresh attempts to revive investor interest. Back Page, Page 34

Japanese watchmakers suffer

Sluggish Japanese demand has hit first-half profits at Japan's two leading watchmakers, Seiko and Casio. At Seiko, pre-tax profits fell by 26.4 per cent on turnover down by 9.8 per cent, while at Casio profits fell 24 per cent despite a 3.5 per cent rise in sales. Page 24

Great Portland declines 7%

Profits at Great Portland Estates, the property investment company, fell 7.3 per cent from £17.52m to £16.24m for the six months to end-September. The company expects to maintain its dividend this year at 10p per share, but Mr Richard Peskin, chairman (left), warned investors of possible future cuts. Page 28

Telecom NZ raises dividend

Telecom NZ has unexpectedly lifted its dividend to 7.25 cents a share from 6.5 cents. Analysts said the company expected earnings to rise strongly in the second half following a review of services, cost structures, capital spending and revenue streams. Yesterday the company announced a 2.6 per cent increase in net profits for the first half. Page 25

Chile shoots ahead on fruit

New technologies and faster transport have helped Chile to emerge as the dominant fruit exporter of the southern hemisphere. A new study suggests further headway is likely during the coming decade, though it may be accompanied by rising protectionism, and intensified trade conflict in certain fruits. Page 30

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Asko	518	+	13
Asko Prf	385	+	25
Douglas	445.5	+	10
Leifheit	380	+	10
Falls			
Metallgesell	322	–	7
Varta	275	–	5

PARIS (FFr)

Rises			
Auxil Entrepr	729	+	16
Ecco	355.3	+	11.3
Gaumont	370	+	10
Falls			
CGIP	979	–	15
Schneider	537	–	37
UAP	401.5	–	14.5

NEW YORK ($)

Rises			
Arkla	9⅝	+	⅛
Falls			
Borland	28¼	–	2
British Airways	38	–	2⅝
Gen Motors	30⅝	–	¾
JWP	3⅜	–	¼
Tokos Med	16½	–	8¼

TOKYO (Yen)

Rises			
Ichikoh	350	+	30
Sakurada	630	+	58
Taikoku Piston	310	+	20
Falls			
Kinseki	715	–	75
Yokohama Rub	505	–	45
Zuiken	1990	–	270

New York prices at 12.30.

LONDON (Pence)

Rises			
Allied Leisure	38	+	4
BOC	703	+	22
Stakis Leisure	35	+	3
Burton	60	+	4
Cosalt	140	+	7
Evode	67	+	7
Forte	175	+	8
Sedgwick	168	+	8
Standard Chtd	555	+	21
Storehouse	178	+	7
Falls			
AMEC	79	–	6
Blenheim	438	–	25
Brit Airways	248	–	23
Euro Disney	863	–	35
European Motor	83	–	8
Goodwin	28	–	7
Gt Portland	122	–	7
Hicking Pent	145	–	8
Howden	53	–	4
Lucas Inds	113	–	5
P & O Dfd	440	–	13
Pilkington	83	–	6
Rolls-Royce	101½	–	7½
United Inds	4½	–	2½

Matsushita falls 66% on lower sales

By Emiko Terazono in Tokyo

MATSUSHITA, Japan's biggest producer of consumer electronics, revealed the full extent of the fall in Japanese consumer demand when it yesterday announced a 65.6 per cent drop in profits.

Pre-tax profits for the half-year fell to Y67.9bn ($547.6m) from Y197.48bn a year earlier. Sales fell 4.3 per cent to Y3,510.7bn, the group's first sales decline in six years, from Y3,670bn.

An increase in depreciation charges affected net profits, which fell 78.9 per cent to Y16.4bn. Operating profits fell 57 per cent to Y87.5bn on foreign exchange losses. The announcement follows last month's parent company results, where pre-tax profits fell 51 per cent, and the company announced a 10 per cent cut in directors' salaries.

Matsushita was burdened with heavy losses at Matsushita Refrigeration, the fridge component maker, and JVC, the audio equipment affiliate. The group booked servicing costs of Y8.1bn due to defects found in Matsushita Refrigeration's fridge compressors.

Other costs totalling Y15.5bn included losses stemming from Matsushita's acquisition of MCA of the US. Depreciation costs totalled Y173.5bn, a 9 per cent increase.

The company said while domestic sales fell 7 per cent, overseas sales fell only 1 per cent. Sales of video equipment fell 13 per cent to Y735.5bn, while audio equipment sales dropped 5 per cent to Y287.5bn.

Sales of communication and industrial equipment was one of the few bright spots, rising 1 per cent to Y841.6bn, while electronic components remained flat at Y426.5bn.

The group's entertainment revenues fell 1 per cent to Y281.2bn, where MCA posted sales of Y212.2bn, a 3 per cent drop. However, Matsushita said in dollar terms, MCA's sales rose 2 per cent.

The company spent Y171.5bn on first-half capital investments, a 45 per cent fall, while research and development spending fell 2 per cent to Y205bn.

For the full year to March, the Matsushita group has been forced to revise its previous projections down sharply due to severe domestic conditions. The company forecasts a 53 per cent fall in pre-tax profits to Y170bn, from a previous projection of Y385bn, on a 5 per cent drop in sales to Y7,070bn, previously forecast at Y7,500bn.

Tony Jackson on the details of Alan Sugar's offer to shareholders

Weighing up the terms of Amstrad's 30p

IN the whole contentious history of management buy-outs in the UK, the most contentious issue is whether the founders of public companies should be allowed to take them private again.

Such cases always set up a particularly sharp conflict of interest. They therefore tend to create an odour of suspicion.

The offer for Amstrad from its founder Mr Alan Sugar, as detailed in this week's formal offer to shareholders, is among the most odorous of the lot.

The special features of the deal can be briefly enumerated.

None of Amstrad's directors can advise shareholders on the merits of the offer, as they all hope to carry on working for Mr Sugar when the deal has gone through.

No independent financial adviser has been employed on the shareholders' behalf. There is no forecast of Amstrad's profits. Shareholders are told there is "little prospect of a significant regular dividend".

The offer is materially below Amstrad's stated asset value per share. It is also more than 60 per cent below the level at which Mr Sugar sold a 7.5 per cent stake in the company 18 months ago.

The value of the offer – £113m ($171m) – is almost precisely equal to Amstrad's net cash in its latest balance sheet.

Nearly half of that cash is being advanced as an interest-free loan from Amstrad to Mr Sugar.

Perhaps, on reflection, this last point is not as odd as it looks. As a big London institutional shareholder sardonically remarks, a company being bought out normally ends up paying for the deal in the long run. It is merely unusual to see the fact so candidly divulged at the outset.

The rest of the document bears this view out. The loan from Amstrad to Mr Sugar will eventually be repaid by dividends from Amstrad itself.

Most of the rest of the purchase price is in the form of a £43m loan from Lloyds Bank. That loan is to be repaid by next June. Once again, the funds are to come from Amstrad.

If they felt philosophical, Amstrad's shareholders might view the loan to Mr Sugar in another light.

The £50m cash is going from Amstrad's coffers via Mr Sugar into their own pockets. It is therefore not so much a loan as the proceeds of a partial liquidation. How philosophical they feel may be another matter. Most will feel some disquiet over the way the 30p offer price is justified to shareholders.

The crucial point is contained in a letter to the Amstrad board from Kleinwort Benson, the company's financial adviser.

According to the accountants Touche Ross, Kleinwort says, Amstrad shareholders would be likely to get less than 30p per share if the company were wound up, in spite of the fact that net assets on the balance sheet four months ago were worth 46p a share.

In arriving at that conclusion, Touche Ross did not carry out an audit, nor did it visit Amstrad's subsidiaries. In assessing the prospects for the group, it relied on assurances from Mr Sugar and the rest of the board.

The nature of such assurances may be gauged from the offer document. Amstrad, Mr Sugar tells shareholders, has no blockbuster products on the way. It is a "me too" competitor. It has to be streamlined.

"While no detailed plans exist," Mr Sugar says, "I am clear that such action would result in a much smaller company."

In assessing the offer, shareholders might reflect that not all buy-outs are a bargain for management.

In 1989 Magnet, the DIY and furniture chain, was bought out in a hotly controversial £630m deal. It was rapidly apparent that the directors had paid vastly too much.

They lost their investment accordingly and some of them their jobs.

Nevertheless, the Amstrad deal may not be a foregone conclusion.

An investing institution said yesterday: "This could be a case for shareholders digging their heels in; if only as a matter of principle."

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Competitive market needs a blockbuster PC product

By Paul Taylor in London

SINCE Amstrad launched its first personal computer, the PC 1512, in 1984, the PC market in the UK and elsewhere has changed dramatically and Amstrad – the quintessential "pile them high, sell them cheap" electronics success story of the 1980s – has failed to keep pace.

Driven by technology and fierce competition, PC prices have been falling – wiping out Amstrad's price advantage.

The wide availability of low-cost components has spawned a flood of PC market entrants. "It is not the same market that Amstrad launched into and pioneered, now everyone and his mother can produce a low-cost package," says Mr Jerry Sanders, executive editor of Ziff-Davis' PC Magazine.

Amstrad can still boast a large installed base, but brand loyalty has evaporated. It has also lost out to a new breed of PC manufacturers such as Dell in the US and Elonex in the UK which sell direct to their customers. Mr Michael Spiro, finance director of north-London-based Elonex, emphasises that with today's wafer-thin margins, PC manufacturers have to sell direct to retain control of overheads. Just as important, direct sales keep a company in touch with its customers. "In the indirect channel you offer what is available, not what is wanted," says Mr Spiro.

Amstrad faces formidable competition in both business and home markets. In the past six months even IBM and Compaq have launched cut-price "clones" of their own.

As Mr Sugar acknowledges, Amstrad is a "me-too" competitor. It needs a new "blockbuster" product. It is difficult to see Amstrad coming up with one.

Fiat in shake-up of top managers

By Robert Graham in Rome

FIAT yesterday announced a streamlining of top management splitting the organisation into two broad sectors – industry and industrial development, and financial control and resource management.

The aim is to prepare Fiat, Italy's largest private industrial conglomerate, for lean times and costly investment in its main business, the motor industry, as well as organise the divestiture of non-core activity.

The shake-up comes as Fiat prepares for the departure of chairman Mr Gianni Agnelli who is due to hand over to his brother, Umberto, in 1994.

The structure also paves the way for the departure of Mr Cesare Romiti as chief executive officer. He is thought unlikely to remain after 1994. The promotion of Mr Giorgio Garuzzo, the 54-year-old chief operating officer, puts him in line for Mr Romiti's job. Mr Garuzzo is being put in charge of one of the two broad divisions – Fiat's diversified industrial portfolio and industrial development. The second broad division covering the group's financial control has been given to Mr Paolo Mattioli who becomes chief financial officer.

Fiat said the new structure would be effective from December 1. There is no reference to redundancies at the head office in Turin where more than 1,000 managerial staff are employed. However, tertiary activities such as legal services, travel and property will be conducted elsewhere.

Fiat's move follows a similar shake-up by Olivetti last week. Fiat relies on the motor sector for more than two thirds of turnover and its profits are being squeezed by the recession in its main markets. In the first half of 1992 profits fell to L655bn ($482m). It is pledged to invest some L40,000bn over the next decade in the motor sector alone. Already this year it has closed a Lancia plant near Turin but more widespread cuts could follow.

Speculation has mounted that Fiat has been studying possible disposals, notably its profitable store chain, Rinascente, Cogefar Impresit, Italy's largest private construction group, and its Toro insurance business.

The sale of non-essential assets is likely to be one of the main tasks of the new chief financial officer.

Recession and fares war take British Airways down 23%

By Paul Betts, Aerospace Correspondent

BRITISH AIRWAYS, the world's most profitable airline, has not escaped the combined effects of recession and the fierce airlines fares war which led to a 22.7 per cent fall in second-quarter pre-tax profits.

Lord King, BA chairman, warned yesterday that prospects for the financial year ending March 1993 remained "uncertain".

Although pre-tax profits for the first half rose 22.7 per cent to £227m ($344.5m), second-quarter earnings tumbled to £136m from £176m in the same quarter last year. This was below City of London expectations and BA shares fell 8.5 per cent to close 23p lower at 248p.

Sir Colin Marshall, chief executive, said second-quarter profits were affected by the absence of aircraft disposals, which produced a £25m gain in the same period last year, as well as a £16m negative swing on currency exchanges and a £6m loss on the start-up costs of the airline's new German subsidiary, Deutsche BA. Excluding these factors, second-quarter operating profits showed a modest 2.4 per cent increase to £169m.

Although disappointed by the second-quarter figures, Lord King said the performance was strong compared with other carriers when international airlines are forecasting a loss of more than $2.5bn this year.

"While we continue to achieve results which are the envy of our competitors, we, like them, have suffered from the effects of the recession," he added.

Although BA continued to experience overall traffic growth, Lord King said the airline did not expect to see an increase in high-yielding business and first-class travel until the world economy recovers.

BA carried 13.7m passengers on scheduled services in the first half, a 9.7 per cent increase over last year. But passenger yield – the average price paid per passenger for each kilometre flown – fell almost 6.8 per cent because of the weakness in premium traffic, aggressive pricing in the industry and the relative strength of sterling during the period.

Turnover in the first half increased 7.6 per cent to £2.89bn. Profits after tax in the first half rose 19.7 per cent to £182m while per-share earnings rose 17.1 per cent to 24.7p. The interim dividend was increased 4.1 per cent to 3.06p.

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Provisions put ANZ into loss

By Kevin Brown in Sydney

AUSTRALIA and New Zealand Banking Group (ANZ) yesterday surprised the markets by announcing net losses of A$579m (US$400m) for the year to the end of September, after provisions of A$1.9bn against bad debts.

Mr John Gough, chairman, said the write-offs followed a rigorous review of provisioning policy by Mr Don Mercer, who took over as chief executive six weeks ago.

The result was in stark contrast to the interim profit announcement in May, when the bank reported a net profit of A$171m, and forecast an improvement in the second half.

Last year the bank made net profits of A$267.3m after bad debt provisions of A$1.04bn.

Mr Gough said the tougher approach to provisioning followed a reassessment of economic prospects by the new management, which was much less confident of the prospects for growth in the sluggish Australian economy. However, he said the high level of provisions had not been prompted by the tough action taken by Westpac Banking Corporation, which wrote off A$2.7bn against bad debts at the half-way stage.

Mr Gough said the write-offs had "cleared the decks". He forecast "a reasonable profit recovery in the current year, and a progressive improvement in ANZ's performance over the next two to three years".

ANZ shares, which traded at up to A$2.63 before the announcement, closed unchanged at A$2.58, partly in response to the final dividend of 10 cents, making an unchanged total of 20 cents.

The shares were also supported by announcements from Moody's and Standard & Poor's, the US credit rating agencies, which said the result would have no effect on the bank's credit ratings.

ANZ said its international, New Zealand and Australian retail operations remained profitable. The Australian business banking division reported a net loss of A$797m.

Most of the division's problems are in the manufacturing state of Victoria. The board said 70 per cent of specific provisioning of A$1.4bn against non-accrual loans related to Victoria.

In addition to the specific provisions, the bank also boosted its general provision fund by A$337m to A$556m.

Future of UK television news unit outlined to shareholders

By Raymond Snoddy

THE possible future of Independent Television News, the television news organisation was outlined in a three-tier package sent to shareholders yesterday.

The package was faxed to ITN by Mr Michael Green, chairman of Carlton Communications who is leading a consortium to take over the organisation. The improved offer would mean;

- about £13 a share for Thames Television, Television South and Television South West, the shareholders that have lost their franchises. The original offer was £1 a share;
- the membership of the consortium which is now made up of Carlton, Central, London Weekend and Reuters would be extended to include Granada Television, Scottish and Anglia. The original consortium members and Granada would each have 18 per cent and the other two 5 per cent each;
- the other ITV companies, which would no longer be shareholders, would get a smoothing out of the five-year news supply agreement set to average £53.3m a year over five years. Lower charges in the early years would help with the franchise bids that have to be paid to the Treasury.

Michael Green: leading the takeover consortium

The improved package does not come in time to stop the extended offer lapsing today.

There is growing concern that no shareholders have seen promised revisions to a shareholder agreement. There are fears about whether the four original consortium members are acting in concert, how much freedom of action ITN executive directors would have and, above all, whether new guarantees of editorial independence are required.

If the revised deal is finally nailed down an American network, possibly ABC, could join the consortium at a later state in line with government stipulations that by the end of 1994 a majority of ITN's shares must be held by non-ITV companies.

The issue of the ownership of ITN has come up because of a £5m a year deficit on the lease of its new London headquarters. The consortium deal would involve injecting up to £30m to deal with the deficit.

Before the property recession, the hope had been that ITN would be able to make money by leasing out several floors to outside tenants.

Svedala Industri acquires US pump group

By Robert Taylor in Stockholm

SVEDALA Industri, the Swedish mining equipment group, has acquired Denver Technologies of the US in a deal which will make the Swedish company a world leader in the supply of pumps and process equipment to the mining industry.

The announcement did not supply financial detail about the deal. The US company which is strong in the North American market has annual sales of $75m and a workforce of 700 people.

By contrast Svedala has annual sales totalling more than SKr8bn ($1.3bn) and employs 10,000 people with 80 per cent of its operations conducted outside Sweden.

"The companies complement each other both in terms of geographic markets and product range," said Mr Kjell Akesson, business manager of Svedala's business area for pumps and process equipment.

"This acquisition is part of the company's ongoing strategy to strengthen our position as a leading supplier to the mineral processing industry.

- Finanzauto, the Spanish earthmoving equipment supplier which is part of the South African Barlow Rand group, has increased its stake in its Portuguese subsidiary Sociedade Tecnica de Equipamentos e Tractores (Stet) to 96 per cent from 59 per cent, Reuters reports from Madrid.

Finanzauto, which is the sole Caterpillar dealer in Spain, spent Pta620m ($5.45m) lifting its stake.

National Power moves ahead 10%

By Michael Smith in London

NATIONAL POWER, Britain's largest electricity generator, increased interim pre-tax profits by 10 per cent in spite of half a percentage point drop in total electricity demand, the first fall for more than 10 years.

The improvement to £201m from £182m was accompanied by a 10 per cent increase in the interim dividend to 3.3p per share.

It reflected significant cost reductions including a 17 per cent cut in salaries during the period.

Yesterday's figures were the first in the electricity industry's interim results season which will show above average profit increases.

The figures are bound to fuel criticism that the electricity industry was overly protected by the government on privatisation two years ago, an issue which has recently become more sensitive because of the pit closures inquiry.

Mr John Baker, National Power chief executive, also released figures which will enable an assessment of the amount of money being paid by electricity consumers as a result of long-term contracts between British Coal and the generators priced to bolster the coal industry.

He said that over the past three years National Power had paid £1.7bn more for British coal under long-term contracts than it would have paid had it been buying at the world market price, all of which was passed on to the consumer.

The figure for last year was £480m. On that basis one analyst estimated the total subsidy paid by UK consumers through electricity generator sales was £750m last year.

Mr Baker said National Power hoped new agreements could be concluded with British Coal for further long-term contracts and said there was no reason why these could not be concluded before the government's forthcoming energy review.

Although National Power has agreed contract terms with British Coal they cannot be signed until all 12 regional electricity companies agree back-to-back terms to take the electricity.

Mr Baker said that if the deals were concluded before the end of the review they could be supplemented by additional contracts if the government decided a larger market for British mined coal should be sustained.

The figures were largely in line with City expectations, after allowing for the accounting changes which resulted in last year's revision in profits of £20m.

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Flaws found in Spain's bid rules

By Tom Burns and Peter Bruce in Madrid

A BITTER fight for control of a small Spanish property group, El Encinar de los Reyes, has exposed serious flaws in the country's new takeover rules and, according to some foreign investment bankers, threatens the authority of the Spanish stock market regulator, the Comision Nacional del Mercado de Valores (CNMV).

As the bidding war between the family controlling El Encinar and Banco Bilbao Vizcaya (BBV), Spain's second largest bank, intensifies, foreign investor attention is focusing on the CNMV's role in the dispute.

"What is happening here is enormously important; we have a set of takeover rules and the BBV is ignoring them and being allowed to get away with it," said one UK investment banker yesterday.

The Olazabal family that controls 35 per cent of El Encinar – owner of a large residential development outside Madrid – launched a formal public offer for a further 14 per cent of the company last month for Pta2,500 ($22) a share.

This would give them majority control of El Encinar as the target company owns 3 per cent of itself in Treasury stock.

Under takeover rules published in June 1991 a competing bid by BBV – which built up a stake of 24.9 per cent in El Encinar earlier this year – should have been formally registered with the CNMV, together with a pricing prospectus.

Instead, BBV ran a series of press advertisements urging El Encinar shareholders to reject the Olazabal offer on the understanding that the bank would make an improved offer once the bid from the Olazabal had expired.

BBV said its offer would be

'What is happening here is enormously important; we have a set of takeover rules and the BBV is ignoring them and being allowed to get away with it'

clearly superior to the Olazabal's but never said by how much.

Spanish takeover rules say a competing bid must be registered within 20 days of the original, leaving the first bidder time to respond within the maximum two months allowed for share offerings.

It is being claimed that the bank's tactic, which one Olazabal adviser described as "inventing a parallel takeover market", has thrown the original offer off course.

The Olazabal family raised their offer to Pta2,750 a share and BBV replied it would better that.

The Olazabal's yesterday offered another Pta20 but complain that while BBV is simply allowed to sit back and promise more without saying how much more, they are being forced to fight in the dark.

"What kind of rules do we have after this, what kind of advice can I give a foreign company seeking an acquisition here?," complained one Spanish investment banker who asked not to be named.

BBV claims that it has not broken any rules.

"The CNMV has to decide whether what we have done is right or wrong and so far it has said nothing to us," said the bank.

An official at the CNMV admitted that "a new [takeover] channel appears to have been opened" by BBV. "If we had seen any illegality we would have done something about it".

The CNMV says there is nothing in the takeover code to prevent successive informal offers such as BBV's.

Critics say that this attitude severely compromises the CNMV's position as a regulator and that in a transparent market, the written rules must be the only guide to what can be done.

Advisers for the Olazabal family are pressing the CNMV to take a formal position and are threatening to test the BBV bid in court.

Tabacalera drops 16% to Pta16.23bn

By Peter Bruce

TABACALERA, the Spanish tobacco monopoly 52 per cent controlled by the state, yesterday announced a 16 per cent drop in pre-tax profits for the first nine months of this year to Pta16.23bn ($142.7m).

The profits setback is an embarrassment to the government as its sets out legislation in preparation for the privatisation of Tabacalera, scheduled for next year.

The nine-month figures, which Tabacalera blamed on a large dividend paid last year by a joint venture it operates with Philip Morris, the US tobacco company, makes it unlikely the group will finish the year with the 15 per cent profit increase forecast by the company.

While nine-month profits at Tabacalera grew just 0.39 per cent, sales advanced by 8.2 per cent to Pta492.2bn.

Last Friday, the Spanish finance ministry proposed changing the law that obliges the state to own more than 50 per cent of Tabacalera.

The eventual flotation is likely to form part of a string of partial privatisations next year as Madrid tries to cut its budget deficits.

The government has still not decided how much of Tabacalera to offer through the stock market.

Swiss fertility drug company rises 34.2%

By Ian Rodger in Zurich

ARES-SERONO, the Geneva group specialising in human fertility drugs, reports net income from continuing operations up 34.2 per cent in the third quarter to $21.1m or $5.63 per share.

Sales grew 29.4 per cent to $214.4m, with strong performances coming from the US, Italy, France and Germany.

"We have observed a certain weakening in key European markets at the end of the quarter, due to strains on governmental reimbursement schemes," Mr Fabio Bertarelli, chief executive, said.

For the nine months ended September, net income from continuing operations rose 28.3 per cent to $69.7m or $15.94 per share.

Including the gain from the sale of the over-the-counter division earlier in the year, net income was $87.8m.

BASF plans to cut workforce by 2,400

By Christopher Parkes in Frankfurt

BASF, one of Germany's top three chemical companies is planning to cut its workforce by a further 2,400 people next year, according to members of the works council.

The cuts, which follow 2,000 this year, will bring the payroll down to 45,000 people. The company aims to manage the reductions by natural wastage, early retirement and non-renewal of short-term contracts.

The group, due to unveil its nine-month results in Ludwigshafen tomorrow, closely followed by figures from rivals Hoechst and Bayer, recently announced it was to reduce its employees' annual bonuses. A cut in this annual payment last year was accompanied by a DM1 reduction in the dividend to DM13.

German analysts have suggested that all three industry leaders will cut their dividends again this year.

BASF's half-year figures, published in August, showed profits down 37 per cent at DM972m ($607.5m), while Hoechst and Bayer fared a little better with earnings reductions of 20 per cent and 10 per cent respectively.

There have since been no signs of any recovery in international chemicals markets and the German industrial climate has deteriorated since the middle of the year.

According to recent forecasts from the chemicals industry association, overall sector profits are set to fall 30 per cent this year, BASF and its competitors are expected to confirm the job losses and other cost-cutting measures when they release their results in the next few days. It is normal practice for such moves to be confirmed before announcements by works councils comprising senior management and employee representatives.

Audi names head

Mr Franz-Josef Kortuem has been nominated as chairman of Audi, part of the Volkswagen motor group, Reuter reports.

Mr Kortuem has been responsible for Audi's marketing since May this year. He replaces Mr Ferdinand Piech who succeeds the retiring Mr Carl Hahn as management board chairman of VW.

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Japanese watchmakers hit by sluggish demand

By Charles Leadbeater in Tokyo

JAPAN'S two leading watchmakers, Seiko and Casio, yesterday reported sharp falls in pre-tax profits for the first half of the year, mainly reflecting sluggish demand in Japan.

Seiko's pre-tax profits fell by 26.4 per cent to Y1.6bn ($12.8m) in the six months to the end of September, compared with the first half of last year.

Turnover was 9.8 per cent down at Y137.41bn and operating profits fell by 53.5 per cent to Y2.89bn. Seiko is maintaining its interim dividend at Y5, despite a 27 per cent decline in net income to Y678m.

Seiko blamed the fall on a sharp decline in demand for expensive and even medium-priced watches as consumers switched to cheaper models. Sales of cheaper styles such as sports watches remained robust, the company said.

Jewellery sales were depressed, apart from cheaper wedding and engagement rings. Export sales were hit by the appreciation of the yen and the slowdown in the US and European economies.

The company warned that the economic outlook for the second half of the year remained uncertain as the stimulus from the government's emergency economic package might be offset by the weakness of the stock market and slower growth in export markets.

Seiko said it expected to make pre-tax profits of about Y3.2bn for the year as a whole, down from Y3.6bn last year, on turnover of Y280bn, against Y298.74bn in 1991.

Casio reported a 24 per cent fall in pre-tax profits to Y8.58bn in the first half of the year, despite a 3.5 per cent increase in turnover to Y171.03bn, mainly due to a surge in sales of its small liquid crystal display TV sets.

Casio also suffered a valuation loss of Y860m on its securities holdings.

The company said exports to Europe, its main overseas market, had been badly hit both by the appreciation of the yen and markedly slower economic growth.

Exchange wavers over electronic trading link

By Richard Waters

PLANS to establish electronic links between investors and brokers to make international securities trades easier have been thrown into doubt by the London Stock Exchange.

The exchange has had second thoughts about building links between its own electronic trade confirmation system, Sequal, and two others from rival suppliers.

Such links are an important element in the planned network through which investors would be able to confirm trades with each other.

The exchange's apparent change of heart has provoked a sharp reaction from institutional investors and others, and brought a threat that it could be dropped from a list of recommended suppliers.

The exchange was one of three suppliers picked by a group of investors and brokers a year ago to develop trade confirmation systems. It was made clear at the outset that bridges between the three were an important element in the initiative.

Now, though, the exchange has said that it wants more time to study the business case for building the links before proceeding.

This has aroused suspicions that it sees the links as a threat to its own future, since they could form the basis of a network on which investors could deal directly with each other.

In a note to other investors who jointly commissioned the three systems, Mr Alistair Reid, a director of Morgan Grenfell's fund management arm, warned that the exchange risked being "removed from the initial list of vendors." He added, though, that he was encouraged that the exchange has now decided to bring forward its consideration of the business case to its December board meeting.

The exchange said yesterday that more time should be given to determining what demand there was for electronic trade confirmation before the three suppliers embarked on the next step of building the links.

Tokyo tries to revive stock market

By Emiko Terazono in Tokyo

JAPAN'S Ministry of Finance yesterday announced rule changes for initial public offering procedures for stocks, in an attempt to revive faltering investor interest in the country's stock market.

The changes are part of the government's emergency economic package announced last August and are intended to reduce the risks of investors and brokers during share offerings, and to ease restrictions for companies which want to go public.

Mr Tsutomu Hata, finance minister, outlining the changes, said he hoped the new rules would reinvigorate the slumping Japanese stock market.

The revision, due to be implemented in January, will allow underwriting brokers to decide the offering price from the average bidding price of the prior share auction.

Tsutomu Hata: hopes new rules will boost market

Until now, the public offering price of 50 per cent of a new listing has been fixed at the weighted average of the 10 highest bids in a share auction of the remaining 50 per cent of the newly offered shares.

This led to excessive competition and unrealistically high bidding prices, often leaving investors and underwriters with over-priced shares.

While the current method functioned smoothly during the bull market of the late 1980s, the sluggishness of the Tokyo stock market increases the risk for buying newly offered shares.

By allowing underwriters to discount from the average bidding price, brokers will be able to offer realistic prices which reflect investor sentiment. Nomura Securities said the changes would allow brokers and investors to quantify risks.

Last year's listing of Sony Music Entertainment, the music arm of the consumer electronics group, provoked criticism from investors, as on the first day of trading, its share price plunged below the initial listing price.

Other measures include:

- To nullify an auction if the number of bids falls short of 25 per cent of the total shares offered. Under current rules, an auction would be valid even if bids did not cover the total 50 per cent of the offering.
- To lengthen the period for new offerings, now concentrated during November to March, to a nine-month period between August and April.
- To shorten the period between the auction and listing dates from 14 to 12 days.
- To increase the period before the auction at which information is provided for investors from 15 to 30 days.

See World Stock Markets

Solid sales growth at Nintendo

By Emiko Terazono

NINTENDO, the Japanese video game manufacturer, saw solid growth in both interim sales and profits, driven by firm demand for its new video game software.

The company, which is likely to become the third-largest profit earner among listed Japanese manufacturers, posted a 5.5 per cent rise in non-consolidated pre-tax profits to Y80.25bn ($647.17m) for the first half to September, and a 13.2 per cent rise in sales to Y277.4bn. After-tax profits totalled Y41.5bn, up 10.4 per cent.

Despite a fall in domestic consumer spending and a continued slump in overseas economies, the company saw strong demand for the advanced version of its video game. Domestic sales jumped by 15.4 per cent to Y101.7bn while exports increased 11.9 per cent to Y175.6bn.

Nintendo said its video game, Super NES, had gained particular popularity in Europe, where the company started to market the model this year.

New software using the popular game character, Mario, also contributed to the rise in sales.

Nintendo said its most popular software product had sold 3.27m copies since its launch at the end of September.

The company saw a 5 per cent rise in interest received, thanks to a 25.1 per cent rise in cash in hand and deposits.

The company is renowned for not having short or long-term borrowings, or speculative securities investments.

For the full year to March, parent pre-tax profits are expected to rise 6.4 per cent to Y166.2bn, surpassing non-consolidated pre-tax profits at Matsushita Electric Industrial.

Sales are forecast to rise 10.3 per cent to Y560bn, while after-tax profits are projected to increase just under 1 per cent to Y86bn.

Dayton Hudson figures reflect current trends in US retailing

By Nikki Tait in New York

DAYTON Hudson, the fourth largest US general merchandise retailer with operations ranging from department stores to the Target discount chain, yesterday reported a sharp improvement in third-quarter profits, up to $57m from $35m in the same period of 1991. Earnings per share rose from 40 cents to 70 cents.

The company said the advance reflected significantly better gross margins, as operating expenses improved and the mark-down rate became more favourable.

These two factors offset the modest increase in same-store sales – up around 2 per cent for the group overall in the third quarter.

During the quarter, Dayton's total sales were $4.34bn ($3.95bn), and the company is posting after-tax profits of $134m ($109m) for the first nine months of 1992.

Dayton's figures seemed to confirm the prevailing trend in the US retail sector – modest underlying sales growth but more significant progress at the bottom-line, thanks to expense controls and other operational improvements.

Yesterday, a pre-holiday season survey of retailers by Deloitte & Touche echoed this message.

"Our retailer findings show some positive signs for this holiday season," said Mr Irwin Cohen, con-chairman of D&T's retail and distribution services group.

"Retailers have brought their businesses more in line reality over the last several years, but seem to have heightened expectations for this season as compared to prior years."

The survey – based on replies from 1,175 retailers – suggests that about two-thirds expect consumers will spend the same or more than last year. For November and December, about 41 per cent expect comparable sales and profits to be either flat or up to 3 per cent higher. However, about one-third of those polled think that results will be better than this.

The most highly ranked business strategy aimed at combating competition over the holiday season was a tightening of corporate expenses. Next came a tightening of stock levels and third was increased promotional activity.

DoT signals approval to Northwest Airlines

By Nikki Tait

THE US Department of Transport has tentatively approved an essential legal condition to the proposed integration of services between KLM Royal Dutch Airlines, the Dutch flagship carrier, and Northwest Airlines, the fourth largest US airline.

The DoT announced it was issuing a "show-cause" order, seeking comment on why it should not approve a request from the two carriers to combine their operations and effectively function as a single carrier.

The order sets a 21-day period for comments and replies, after which the DoT will issue its final decision.

However, the US authorities made clear the agreement "should benefit the public by providing better services and enabling the two carriers to operate more efficiently".

The DoT said it did not expect the agreement to reduce competition substantially, but it will still require the carriers to resubmit the arrangements for review in five years.

KLM has held a minority stake in Northwest since a $3.65bn leveraged buy-out of the US carrier in 1989.

However, the two airlines claim any significant integration of their respective business has been hampered by the need for immunity from prosecution under US anti-trust laws.

Because US law prohibits a foreign carrier from owning a controlling interest in a US airline, the two airlines argue that there is "a very real risk that collaborative planning, scheduling, pricing and marketing of services could be challenged as being price-fixing and market allocation agreements between horizontal competitors".

The request for anti-trust immunity came shortly after the US and Dutch governments signed an "open skies" aviation pact, essentially allowing each others' carriers unfettered access to the respective home markets.

The issue of operational integration arises at a delicate time for Northwest, when financial uncertainties are hanging over the company.

Daihatsu suffers Y4.92bn loss

By Charles Leadbeater

DAIHATSU, the Japanese carmaker which specialises in minicars, yesterday announced that the downturn in the country's economy had forced it into its first loss since the second world war.

Daihatsu joins Nissan and Mazda Motors as the car manufacturers which have been hit worst by the slowdown in Japanese consumer spending.

Nissan last week declared a first-half loss and Mazda reported a fall in pre-tax profits of more than 70 per cent.

In contrast Toyota, the leading manufacturer, and Honda have managed to contain the impact of the downturn on their finances.

Daihatsu, which is affiliated to Toyota, reported pre-tax losses of Y4.92bn ($39.67m) for the six months to the end of September.

This compares with pre-tax profits of Y3.63bn in the first half of last year.

Its net losses amounted to Y4.94bn, against profits of Y2.24bn in the first half of 1991.

The company said that it would not pay senior executives a winter bonus and halved its interim dividend to Y1.5.

Daihatsu blamed the the sharp deterioration in its finances on rising sales and labour costs which outstripped its 2.5 per cent increase in turnover to Y391m for the half-year.

The value of Daihatsu's sales rose mainly due to production of higher priced models for Toyota.

However, sales volume fell by 13 per cent to 287,000 units in the first six months of the year.

Continental says shake-up plan may offer 'significant' benefits

By Nikki Tait

CONTINENTAL Airlines, the fifth largest US carrier which has been in bankruptcy since late-1990, has filed its revised reorganisation plan with the courts.

The new scheme incorporates the potential $450m infusion from Air Canada and Air Partners, a Texas-based investment partnership.

That deal, announced last week, would give the two investors equity stakes of 27.5 per cent each in the reorganised US carrier.

In the document, Continental claims that significant potential benefits may be realised from an inter-carrier relationship with Air Canada.

It suggests that the principal gains could come in the areas of technical operations and maintenance, commercial synergies, information systems and fleet planning.

The reorganisation proposes:

- That Air Canada could handle some of Continental's engines and components maintainence;
- That Air Canada could put more focus on Newark airport in New Jersey, a Continental hub, and feed traffic into the Continental flight network;
- That the two companies could enter a five-year technology sharing agreement, with Air Canada paying Continental a $3m annual fee.

The document also outlines various areas of decision-making at Continental, which would require a "super-majority" – so that either the six directors appointed by Air Canada or Air Partners would be in a potential blocking position. These would include matters such as material capital expenditures, acquisitions and asset sales.

Similar small print in British Airways' proposal to acquire a minority stake in USAir has provoked a storm of controversy, with big US carriers arguing that this equates to control. US rules do not permit foreigners to control a domestic airline.

Under the revised reorganisation plan, secured creditors of Continental will generally have their claims restructured, while unsecured creditors will be offered shares in the reorganised airline, plus a share in any cash arising from certain litigation.

- Air Canada is exploring new options that it says the federal government should look at before it commits any financial aid to PWA, Reuter reports from Ottawa. "Before the government commits itself to a bail-out of PWA they should sit down with both parties and see if there is not something of interest for the industry," said Mr Denis Couture, spokesman for Air Canada.

MGM posts reduced deficit in third term

By Karen Zagor in New York

METRO-Goldwyn-Mayer, the Hollywood studio now controlled by its French bank creditor Crédit Lyonnais, has posted a third-quarter operating loss of $27.2m, compared with $52.5m a year earlier.

Including one-time items and interest expenses, MGM's net deficit was $79.8m in the quarter, against $73.3m in the same period of 1991.

Revenues rose to $228.5m from $202.2m, led by video and television licensing.

MGM is still struggling to clean up its balance sheet after being run for nearly a year by Mr Giancarlo Parretti, the controversial Italian financier who lost control of the studio in December.

The company said it had stepped up production and development since Mr Parretti's departure, but it did not expect these activities to be reflected in its results until next year.

For the first nine months, MGM suffered an operating loss of $79.4m on revenues of $722.3m, compared with an operating loss of $110.9m on revenues of $703m a year earlier.

The company's net deficit for the 1992 period stood at $193.5m against $233.2m.

- Live Entertainment, the video distribution company 49.9 per cent owned by the cash-strapped Carolco Hollywood studio, yesterday posted third-quarter net income of $1.1m, or 5 cents a share, against a net loss of $40.5m, or $3.39, last year.

Sales in the quarter rose to $91.2m from $85.7m.

The group said its improved results in the latest quarter were due partly to higher sales and gross profit margins at Live Home Video.

In the 1991 third quarter, there was a $15m write-down in connection with its acquisition of Vestron in July 1991.

The company said it expected its "sales and profits will continue to reflect this improvement in the fourth quarter".

Westinghouse considers sell-offs to relieve exposure to property

By Martin Dickson in New York

WESTINGHOUSE Electric, the embattled US conglomerate, is considering more rapid and comprehensive solutions to the troubles of its financial services business, which might mean further substantial reserves and force it to sell off one or more of its businesses.

Westinghouse, with interests ranging from broadcasting to power generation, has been plagued for more than two years by the problems of Westinghouse Financial Services, which has a heavy exposure to poor investments in the depressed US property market.

Westinghouse took a pre-tax $1.68bn provision in the third quarter of last year, mainly for property problems, on top of a $975m charge to sort out the financial services unit at the start of 1991.

The company said it had been pursuing a strategy of reducing the financial service unit's portfolios over five years.

However, it was now conducting a comprehensive review of alternative strategies, due to be completed in the fourth quarter or shortly afterwards, in the light of factors such as continuing adverse economic conditions and declining margins and yields in the Westinghouse portfolio.

The review might lead to the sale or liquidation as soon as possible of some or all of the portfolios, involving another substantial reserve.

That, in turn, would require the sale of one or more of the group's businesses.

Mr Paul Lego, Westinghouse's chairman, said the group would not be stampeded into premature decisions. If businesses were sold, it would try to optimise its return and find strategic buyers who would serve the interests of employees and customers.

Last month, Mr Lego had to issue a press statement reassuring investors that rumours the group was about to file for Chapter 11 bankruptcy were "preposterous".

Westinghouse's management is expected to be the subject of numerous hostile resolutions from shareholder activist groups at next year's annual meeting because of the group's poor recent performance.

Kuoni forecasts profits growth

By Ian Rodger in Zurich

REISEBURO Kuoni, Switzerland's largest travel agency, expects net profits to rise sharply in 1992 to between SFr35m and SFr40m ($24.30m-$27.70m), thanks to higher sales and cost cutting.

Last year, the group's net profit fell 21 per cent to SFr21.3m.

Sales in the first nine months were close to SFr2bn, up 18 per cent.

Brazilian tin miner boosted by higher prices

By Bill Hinchberger in Sao Paulo

PARANAPANEMA, the world's largest tin exporter and Brazil's largest private mining company, unveiled profits of $32.3m for the first nine months of this year but posted a loss of $30.6m for the entire year. The results were boosted by higher tin prices.

Reliable figures for the first nine months of 1991 were not available due to government-mandated changes in inflation accounting procedures, said Mr Arislando Prado, director of market relations.

In early September, the tin price peaked at about $7,200 per tonne, up from a norm of about $5,500 during the first half of the year. Prices have since fallen to around $5,800 a tonne.

The construction business, responsible for about 20 per cent of receipts, remained in the red.

Administrative costs, down 22 per cent since the beginning of a reorganisation scheme in May, also helped improve profit figures. Mr Prado said layoffs were primarily due to the fusion of administrative structures of the mining and construction branches.

Paranapanema's tin output should remain stable, at about the 17,000 tonnes produced last year, said Mr Prado.

- Papel Simao, a leading Brazilian exporter of paper products, posted profits of $1.9m for the first nine months. The year-end profit figure last year was $2.6m.

The publicly traded company is controlled by Votorantim, Brazil's largest conglomerate, which bought 100 per cent of Papel Simao's voting stock, and 47.7 per cent of total capital, for $190m in September.

Votorantim already owns Celpav, a competing pulp and paper producer, but there are no merger plans, said Mr Milton Correa Henrique, finance director for Papel Simao. Instead, the two subsidiaries are exploring potential avenues for co-operation, he said.

Expecting a reversal of the current decline in the international pulp and paper market, Papel Simao is investing $130m to increase cellulose production in its Jacarei plant by 100 tonnes a day, from 550 tonnes. The project should be completed in December 1993, said Mr Calfat.

The company also plans to invest $270m to expand paper production capacity, to be ready by the first half of 1995, said Mr Calfat.

Telecom NZ profits advance 2.6%

By Terry Hall in Wellington

TELECOM Corporation of New Zealand yesterday reported a 2.6 per cent rise in net profits to NZ$184.8m (US$96.3m) for the six months to September 30 from NZ$180.2m a year earlier, in spite of a fall in operating profits to NZ$1.22bn from NZ$1.28bn.

Telecom NZ, whose main shareholders are Bell Atlantic and Ameritech, the US telecommunications groups, announced an unexpected 11.25 per cent rise in dividend.

Analysts said this was a sign that the company expected earnings to rise strongly in the second half following a review of services, cost structures, capital spending and revenue streams. Telecom NZ is listed on Wall Street, London and main Asian exchanges as well as in New Zealand.

Mr Peter Shirtcliffe, chairman, said the company had performed well in an environment of intensifying competition, by combining cost reduction programmes with carefully focused growth strategies.

He said the result was satisfactory as the period did not include earnings from the Auckland white and yellow page directories, which contributed NZ$16.5m last year. These results will be included in the final quarter's figures.

Mr Shirtcliffe said there was a continuing decline in some revenue streams including from national calls which were down 13.8 per cent because of competition. Earnings from international calls were also down.

Cellular revenue rose 25.4 per cent, with cellular connections up 34.1 per cent compared with September 1991. National call volumes were up 1.6 per cent, which Mr Shirtcliffe said was a reflection of a strengthening economy. Smartphone and payphone revenue rose 68.4 per cent.

The company had handled competition successfully and held 86 per cent of the market at September 30. Mr Shirtcliffe said the current review was designed to produce important improvements which will result in earnings growth and shareholder value. This would produce exceptionally strong cash flows and a strong balance sheet. It would be helped by new technological services and new products.

Operating expenses fell to NZ$876m from NZ$930m and operating earnings rose to NZ$348m from NZ$338m. Investment income fell to NZ$20m from NZ$27m and tax took NZ$77m compared with NZ$87m.

Earnings per share were unchanged at 8 cents and the interim dividend is being raised to 7.25 cents a share from 6.5 cents.

Maori consortium wins battle for Sealord

By Terry Hall in Wellington

SEALORD Products, New Zealand's biggest deep-sea fishing company, was yesterday sold to a consortium of Maori people and Brierley Investments (BIL), the New Zealand investment holding company, for NZ$350m (US$182m).

They beat off a bid from a group led by Royal Greenland, a Danish group.

Sealord has been a subsidiary of Carter Holt Harvey since 1978 and has become the leading holder of deep-sea fishing quotas in New Zealand, with 26 per cent of the allowable catch.

The controversial deal involving the Maori people is designed to settle permanently fishery claims dating from the *1840 Treaty of Waitangi*, the peace pact signed by the British colonial powers and the Maori.

The New Zealand government has lent the Maori people NZ$150m to help fund their part of the deal.

While a majority of Maori tribes supported the proposal, a minority, including a tribe on the Chatham Islands, objected and unsuccessfully took the issue to the Court of Appeal. They argued it was unjust for the government to seek to settle their grievances for all time. Last night this group vowed to continue to fight it.

Sealord's quota includes two valuable deep-sea species of whitefish: orange roughy, most of which is sold to the US, and hoki, for which there is a growing international market. The company is also involved in processing squid and ling, scallops and mussels. In the year to last March it employed 1,400 people and had sales of NZ$250m.

Sealord estimates profits of NZ$40m for the year to March 31 1993. Mr David Oskin, Carter Holt Harvey managing director, yesterday said the company was trading ahead of budget for this year, and the new owners *might be able to* extract further value from Sealord's resources.

Brierley Investments, on behalf of the joint venture company to be known as Te Ika Paewai, said the consideration was NZ$337m. However after adjustments for profit, working capital and capital expenditure for the two-month period from September 1 to October 31, the total consideration would be NZ$350m.

Earnings at Larsen and Toubro surge ahead

By R.C. Murthy in Bombay

PROFITS of Larsen and Toubro, India's largest engineering company, surged in the first half, contrary to the trend of falling corporate profits among other Indian companies.

Net profits advanced to Rs568m ($19.9m) for the six months to the end of September, from Rs490.4m a year earlier, on sales one fifth ahead at Rs9.4bn compared with Rs7.89bn.

The group, which manufactures plant and equipment for anything from dairies to the nuclear power industry, said it was swamped with orders as Indian companies rushed to buy locally manufactured plant which became cheaper than imports after devaluation of the rupee in February.

Larsen and Toubro's order book rose in the past 12 months by 70 per cent to Rs15.36bn from Rs9.05bn.

The orders include building, for the first time in the country's history, four well platforms costing Rs4bn for the Oil and Natural Gas Commission, the Indian state-owned oil corporation, as well as widening the state highway in Orissa, a dairy plant in Gujarat, a hospital in Sikkim and upgrading a hydro-electric project in Nepal.

Looking to the rest of the year, the directors said: "The company expects to produce good results," though they did not forecast any figures.

The group expects to invest at least Rs30bn over the next five years, including Rs16.5bn on the first phase of an alumina project in the eastern state of Orissa. It also plans to triple cement output from 2.2m tonnes to more than 6.0m tonnes within three years.

The company was started in Bombay by two enterprising Danes, Mr Holk Larsen and Mr Soren Toubro, during the second world war.

Troubled Westpac sells Channel Ten holding group

By Kevin Brown in Sydney

WESTPAC Banking Corporation, the troubled Australian bank, yesterday said it had completed the sale of Television and Telecasters (TTL), the holding company for the Channel Ten television network, to a consortium led by CanWest Global Communications, a Canadian broadcasting group.

Westpac did not reveal the price for the sale, which is subject to regulatory approval. However, CanWest said that the consortium expected to pay about A$235m (US$161m), of which about 50 per cent would be financed by a loan from Westpac.

CanWest, Canada's largest independent television broadcaster, will take a 15 per cent stake in TTL.

Other consortium members have not been named, but Television North Queensland, a regional broadcaster which carries the Channel Ten signal, is believed to be planning to join the consortium.

CanWest last year bought a stake in New Zealand's fledgling TV3 network, and is believed to be planning to achieve synergies between the two countries through common programming.

TTL, the least successful of Australia's three commercial television networks, was acquired through a debt-for-equity swap last year.

The network had been in receivership since it defaulted on its bank debts in September 1990.

However, the network recently announced a return to profitability after two years of losses with a net profit of A$15.2m for the 50 weeks to the end of September.

The sale of Channel Ten heralds the end of a period of uncertainty for Australia's three commercial broadcasters, all of which have suffered changes of ownership in the last two years.

Channel Seven, once owned by Mr Christopher Skase's Qintex Australia group, remains in receivership, but is profitable, and is expected to be floated on the Australian Stock Exchange next year.

Channel Nine, the top-rated network, is making strong profits following the acquisition of a controlling shareholding by Mr Kerry Packer's Consolidated Press group.

Channel Nine was previously owned by Bond Corporation, the failed flagship of Mr Alan Bond, the bankrupt entrepreneur.

The sale of Channel Ten will improve Westpac's image, which has been battered by poor financial results, bad debts, a failed rights issue and the recent resignation of five directors, including the chairman.

Santos drops its bid for Sagasco

By Kevin Brown

SANTOS, the Australian energy group, yesterday dropped a A$560m (US$386m) hostile bid for Sagasco Holdings after legal action against the bid by the Trades Practices Commission (TPC), the federal competition watchdog.

But Santos said it would try to acquire 19.9 per cent of Sagasco, on the market since the South Australian state government decided earlier this year to sell its 57 per cent holding.

Santos said its decision to drop the bid was prompted by uncertainty over the outcome of the TPC action, which is expected to be heard in the Federal Court in March.

The group also said it was concerned about uncertainty surrounding a rival A$122m bid by Sagasco for Magellan Petroleum Australia, launched shortly after the announcement of the Santos offer for Sagasco.

The Queensland Court of Appeal has prevented the mailing of takeover documents from Sagasco to Magellan shareholders pending a trial of objections filed by Magellan.

Santos said it would oppose an application by the TPC for a permanent injunction against the offer, suggesting that it remains a potential bidder for control of Sagasco in the long term.

"Santos has senior counsel's advice that it has a strong case and that the TPC is unlikely to succeed at trial," the company said. The TPC claims the takeover would give Santos control over gas supplies on the Australian mainland.

Santos shares closed two cents higher on the Australian Stock Exchange at A$2.37.

New Straits Times Press rises to M$96m

By Kieran Cooke in Kuala Lumpur

THE New Straits Times Press, Malaysia's largest newspaper and publishing group, has announced pre-tax profits of M$96m ($38.5m) for the year ending August 31 1992. This compares with a profits of M$82m in the previous year.

Group turnover rose 28 per cent in the year to M$375.6m. The group is part of Renong, the Malaysian conglomerate.

A final dividend of 15 Malaysian sen has been proposed compared with 10 sen in 1991.

Foster's meets rights issue target

By Kevin Brown

FOSTER's Brewing, the Australian drinks, finance and pastoral group, yesterday said it had successfully completed a two-for-five rights issue to raise just over A$1bn (US$639m).

Mr Ted Kunkel, chief executive, said over 97.6 per cent of the shares had been taken up, leaving a shortfall of about 21.0m in underwriters' hands.

He said the issue had been *"an outstanding success"* in the face of generally depressed economic conditions and a fall of 132 points in the Australian Stock Exchange All Ordinaries index between the announcement and the close of the issue.

"Foster's Brewing Group looks forward to a period of stability, and our management is firmly focused on our worldwide brewing operations. Shareholders have shown faith in the company and I believe that faith will be rewarded," he said.

The Foster's issue, which was fully underwritten, is the first big capital raising in Australia since the failure of a A$1.2bn rights issue by *Westpac Banking Corporation* in September, which was 72 per cent undersubscribed.

Foster's announced the rights issue in September, shortly after reporting a net loss of A$951m for the year to the end of June, following write-downs of A$1.9bn against pastoral, finance and investment operations.

The group is attempting to restructure itself as a pure brewing operation, but has been unable to dispose of many non-brewing assets. The rights issue is intended to repair the group's balance sheet following a series of hefty write-downs.

Broken Hill Proprietary, recently took a 32 per cent *shareholding in Foster's* by buying most of the stock held by the receiver to International Brewing Holdings, a private company formerly controlled by Mr John Elliott.

India's ITC up 28% in first half

By Shiraz Sidhva in New Delhi

ITC, the diversified Indian group with interests in cigarette manufacturing, hotels and agribusiness, has reported *improved profits and foreign* exchange earnings for the first half to September, maintaining its status as India's leading exporter.

The Calcutta-based company, in which the BAT Industries of the UK has a 32 per cent stake, reported higher turnover of Rs18.03bn (US$635.75m), compared with Rs13.61bn a year earlier.

Export sales rose to Rs2.97bn *from Rs2.24bn, and gross prof*its advanced to Rs1.25bn from Rs1.01bn.

Taxable profits moved up by 22 per cent to Rs1.15bn from Rs951m and net profits were 28 per cent ahead at Rs660m, against Rs517m.

The improvement came in spite of a five-month industrial dispute at its Tribeni Tissues paper division.

The company says it will continue to give the highest priority to exports. It has set itself a target of achieving $1bn in international sales by the year 2000.

INTERNATIONAL CAPITAL MARKETS

Indigestion may follow Kingdom of Sweden's issue

By Brian Bollen

THE Kingdom of Sweden yesterday became the second Scandinavian borrower in as many days to look to the bond markets for $2bn. However, its three-year issue was compared unfavourably with Finland's five-year global bonds launched the day before.

INTERNATIONAL BONDS

Some traders complained about the amount, the maturity and the borrowing instrument although they did agree, largely, that the pricing looked just about right.

Such a large amount could, however, take some time to digest, particularly in the light of Finland's success.

After a series of deals in D-Marks, French francs and sterling over five years, Sweden's decision to diversify its maturities with a big liquid current coupon benchmark deal in the three-year range was not totally vindicated. Joint lead manager and book runner J. P. Morgan confirmed that while demand was good the issue did not sell out.

As Sweden's increased $5bn SEC shelf registration in New York is now effective, some traders thought it odd the kingdom should launch such a large Eurobond rather than try a global issue.

But Credit Suisse First Boston, the other lead manager, said that one of the main attractions of the Eurobond market remained the ability to launch such a large deal at very short notice.

The bonds bring the total raised on the capital markets under the second phase of the kingdom's emergency borrowing programme to around Ecu6.5bn, said Mr Staffan Crona, director-general of the Swedish National Debt Office. This leaves a further Ecu8.5bn to be raised.

Finland's global issue, priced yesterday at the bottom of its indicated range to yield 82 basis points over Treasuries, was still generating excitement and comment. It vindicates the global issue concept for big issues, say some traders.

Finland has got a better deal than anyone thought possible a few weeks ago, and set itself up to tap residual demand in the US next year where investors could well be persuaded to buy more at longer maturities, they say.

Elsewhere, SüdWestLB took advantage of the continuing demand for high-quality current coupon Eurosterling paper with its £100m 10-year 8⅝ per cent subordinated bond.

The implicit state guarantee enjoyed by German borrowers such as SüdWestLB means that in effect they cannot go bankrupt and can launch subordinated debt at a very tight spread to gilts, in this case 19 basis points.

Lead manager Lehman Brothers said it had identified a particular lack of supply of triple-A rated bonds in the 10-year range, and that the issue traded around the reoffer spread after it broke syndicate.

In the equity-related sector, Square D's discounted convertible issue provides Schneider, its French parent, with low-cost funds to refinance $150m of a seven-year term loan it raised to help buy Square D in 1991.

Ireland is being talked about as a potential borrower of $300m-$500m over five years.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Republic of Finland(a)	2bn	6.75	99.55	1997	25/20bp	Merrill Lynch Int.
Kingdom of Sweden	2bn	5.5	99.42	1995	18¾/8¾bp	JP Morgan Secs.
Square D Co.(b)§	232	2	64.659	2003	2½/1½%	Lehman Bros.Int.
Sumitomo Bk.Cap.Mkts.Inc.(c)‡	50	(c)	100	2002	30bp	Sumitomo Finance Int.
D-MARKS						
Basque Regional Government	200	8	101.825	2002	3/2⅛%	Goldman Sachs
Nikken Foods Co.(d)♦★★	12	(d)	100	1996	-	Sumitomo Bk.(Deutsch.)
STERLING						
Suedwestdeutsche Landesbank	100	8.625	101.47	2002	2/1¼%	Lehman Bros.Int.
GUILDERS						
BK For Dutch Municipalities(e)	500	7.625	100.85	2002	1/⅝%	ABN Amro
VSB Groep	150	7.75	100.6	2000	1/⅝%	KBW Effectenbank
SWISS FRANCS						
Mitsubishi Oil Co.(f)♦★★	300	2.875	100	1996	-	Crédit Suisse
Takara Standard Co.(g)♦★★	100	2.875	100	1996	-	Bank Julius Baer
Toyo Chemical(h)♦★★	25	2.875	100	1996	-	Paribas Suisse

Final terms and non-callable unless stated. ★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. a) Coupon payable semi-annually. b) Exchangeable into Schneider shares. Conversion premium fixed at 11.7%. Callable from 11/1/97. c) Coupon pays 70bp above 6-month Libor for first 3 years and 9⅛% fixed annual thereafter. d) Coupon pays 40bp over 6-month Libor. e) Issue launched on 10/11/92 has been increased to Fl1bn. f) Final terms fixed on 19/11/92. g) Final terms fixed on 26/11/92. h) Final terms fixed on 24/11/92.

Liffe to include Treuhand bonds in futures contract

By Sara Webb

BONDS issued by Treuhand, the German agency charged with the privatisation of former eastern German assets, will be accepted for delivery in the German government bond futures contract, the London International Financial Futures and Options Exchange (Liffe) announced yesterday.

The announcement was welcomed by bund market participants who said the decision to include Treuhand issues in the list of deliverable bonds for Liffe's bund contract would improve the attractiveness both of Treuhand bonds and the Liffe bund futures contract.

The Treuhand bond issue is already included in the list of deliverable bonds for the bund futures contract on Germany's Deutsche Terminbörse (DTB).

However, the difference in the DTB and Liffe contract specifications has led to a widening of the price gap between the two contracts: this arose because the Treuhand issue is the cheapest to deliver into the DTB contract, and so the DTB bund future is priced lower than the Liffe contract.

Liffe has 67 to 70 per cent of the bund futures contract business, against the DTB's 30 to 33 per cent share. But some market participants warned that Liffe would risk losing market share if it did not include the Treuhand bond issue in its list of deliverable bonds.

The German finance ministry recently said there would be no further 10-year Federal issues as this maturity area would be left free for the Treuhand. The statement led to concern that Liffe might suffer in the longer term as the number of bund issues declined.

Liffe said Treuhand's bonds would be accepted for delivery in the June 1993 contract. The June 1993 delivery will be listed for trading on November 30.

Announcement of gilts auction wipes out early gains

By Sara Webb in London and Patrick Harverson in New York

FUNDING worries continued to trouble the UK government bond market with medium-dated issues closing lower on the latest auction announcement.

GOVERNMENT BONDS

The Bank of England's announcement of a gilt auction next month helped to wipe out the morning's gains, dealers said. The Bank plans to auction a medium-dated conventional stock, maturing between 2001-2005, on December 2.

Further details, including the amount and specific stock, will be announced on November 24.

Dealers said the announcement pushed medium-dated issues lower. The 9¾ per cent gilt due 2002 fell from 109⅝ to 109⅛ by late afternoon. Among short-dated stocks, the 10 per cent gilt due 1994 inched up from 104⅞ to 105 to yield 6.58 per cent.

Dealers estimate the government only has about £4bn of funding left to do in the current financial year, to help meet its estimated £37bn public sector borrowing requirement. However, the market is expecting gilt issuance in the 1993/94 financial year to be much heavier, with about £1bn of gilt issuance a week.

■ US TREASURY prices were little changed in light trading yesterday morning, although some early selling at the long end led to a modest steepening of the yield curve.

By midday the benchmark 30-year government bond was up ⅛ at 100⅝, yielding 7.559 per cent. The two-year note was also slightly firmer at midsession, up ⅛ at 99⅞, to yield 4.623 per cent.

After Monday's curve-flattening trades, which involved buying longer-dated securities and selling the short end, investors came in early to reverse partially that move, with the yield on the two-year note falling farther than on the long bond.

Otherwise, trading was subdued in the absence of important economic news, and in the expectation that the Federal Reserve's policy-making Open Market Committee (which was meeting yesterday) would leave interest rates unchanged in light of the recent signs that the economic recovery was gathering pace, albeit only very slowly.

■ GERMAN government bonds traded in a narrow range ahead of today's holiday. The Liffe bund futures contract, which opened at 91.01, moved in a range of 90.93-91.09, ending the day at around 90.97.

Dealers welcomed yesterday's announcement from the London International Financial Futures and Options Exchange (Liffe) that it will include Treuhand bond issues for delivery into its German government bond futures contract. The news emerged too late in the day to have much impact on the market.

■ ELSEWHERE in Europe, French government bonds ended mixed with long-dated issues closing down while shorter-dated bonds finished slightly firmer.

The yield on the 8 per cent bond due 1994 opened at 8.17 per cent and ended at around 8.08 per cent. Dealers said the short end of the market held up well ahead of tomorrow's auction of two and five-year paper.

Long-dated bonds ended lower with the yield on the 8½ per cent bond due 2008 ending at 8.12 per cent, against an opening level of 8.09 per cent.

■ JAPANESE government bonds reached new highs in the cash and futures markets, lifted by the combination of a weak stock market and an easing in money market interest rates.

The Nikkei stock index dipped below 16,000 for the first time since August, losing 169.51 points to finish at 15,993.48. Its fall revived hopes of a cut in the Official Discount Rate. In the money market, dealers said the Bank of Japan appears to be tolerating lower interest rates, as the overnight rate slipped 1/16 to 3⅜ per cent.

The yield on the benchmark No 145 opened at 4.69 per cent and closed at 4.59 per cent and futures rose to the high price of the day.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.1989	-0.480	8.89	8.89	8.79
BELGIUM		8.750	06/02	104.0400	-0.240	8.12	7.87	8.28
CANADA *		8.500	04/02	102.2500	-0.750	8.13	8.04	7.81
DENMARK		9.000	11/00	101.7000	+0.150	8.70	8.61	9.32
FRANCE	BTAN	8.500	03/97	101.5924	+0.321	8.02	7.91	8.05
	OAT	8.500	11/02	102.6250	-0.120	8.10	8.06	8.44
GERMANY		8.000	07/02	103.8000	-0.030	7.43	7.24	7.38
ITALY		12.000	05/02	94.5200	+0.180	13.201	13.54	14.76
JAPAN	No 119	4.600	06/99	101.4478	+0.104	4.31	4.38	4.71
	No 145	5.500	03/02	105.6797	+0.240	4.60	4.68	4.95
NETHERLANDS		8.250	09/02	104.6100	-0.180	7.58	7.52	7.60
SPAIN		10.300	06/02	88.3750	-0.150	12.41	12.64	13.38
UK GILTS		10.000	11/96	105-12	+2/32	7.17	6.87	7.73
		8.750	09/02	109-08	-9/32	8.35	8.01	8.68
		9.000	10/08	102-16	-5/32	8.72	8.50	8.97
US TREASURY *		6.375	08/02	98-19	+2/32	6.86	6.83	6.82
		7.250	08/22	95-31	+4/32	7.60	7.59	7.54
ECU (French Govt)		8.500	03/02	98.6800	+0.210	8.70	8.81	9.10

London closing, *denotes New York morning session. Yields: Local market standard. † Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)

Prices: US, UK in 32nds, others in decimal. *Technical Data/ATLAS Price Sources*

FT FIXED INTEREST INDICES

	Nov 17	Nov 16	Nov 13	Nov 12	Nov 11	Year ago	High *	Low *
Govt Secs.(UK)	94.06	94.01	94.98	95.34	95.54	86.72	95.54	85.11
Fixed Interest	109.30	109.42	110.06	110.28	110.29	98.39	110.28	97.16

Basis 100: Government Securities 15/10/26; Fixed Interest 1928. * for 1992. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed interest high since compilation: 110.28 (12/11/92), low 50.53 (3/1/75).

GILT EDGED ACTIVITY

Indices*	Nov 16	Nov 13	Nov 12	Nov 11	Nov 10
Gilt Edged Bargains	185.8	214.3	312.2	296.3	302.6
5-Day average	262.3	280.8	287.8	270.5	258.4

* SE activity indices rebased 1974.

Basque area in first international offering

By Tracy Corrigan

THE Basque area, one of Spain's 17 autonomous regions, yesterday launched its first international bond offering, a DM200m 10-year Eurobond arranged by Goldman Sachs.

Previously, the region has met its financing needs in Spain's domestic market, where it issues four and five-year debt called Euskobonds. The shift to international funding is designed to broaden the investor base and extend the maturity profile of the region's debt, said Mr Victor Mugica, vice-minister of treasury.

He added the government plans to issue a greater proportion of foreign currency debt next year.

This year, the Basque government has raised a total of Pta81.8bn, of which yesterday's D-Mark offering accounts for about 9 per cent. In 1993, the government plans to raise about 30 per cent of its Pta88bn borrowings in the international market.

The DM200m Eurobond is rated AA2 by Moody's and AA by Standard & Poor's, the same rating as for Spain's debt, although the paper is not guaranteed by Spain. The rating reflects the Basque government's consistently large operating surpluses, modest debt burden and considerable financial flexibility, according to S & P. The Basque government can use borrowings only for capital investment.

The proceeds of the issue are not swapped. The borrower chose to tap the D-Mark market because, as well as being a current focus for investor demand, rates are substantially lower than in Spain. Mr Mugica had also been considering the dollar sector, but was discouraged by the greater volatility of the currency and the steep yield curve – the government was keen to raise long-dated funds.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 17

U.S. DOLLAR STRAIGHTS / OTHER STRAIGHTS / DEUTSCHE MARK STRAIGHTS / SWISS FRANC STRAIGHTS / YEN STRAIGHTS / FLOATING RATE NOTES / CONVERTIBLE BONDS
[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	33	18	28
Other Fixed Interest	8	2	5
Commercial, Industrial	249	251	921
Financial & Property	109	214	479
Oil & Gas	18	21	45
Plantations	0	0	9
Mines	24	38	83
Others	45	39	32
Totals	486	583	1,602

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am'nt Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price	+or-	Net Div	Times Cov'd	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price	Amount Paid	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price	+or-
[illegible]							

RIGHTS OFFERS

Issue Price	Amount Paid	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price	+or-
[illegible]							

a Annualised dividend. b Figures based on prospectus estimates. g Assumed dividend and yield. q Earnings based on preliminary figures. s Forecast or estimated annualised dividend rate, cover based on previous year's earnings. x Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1993. L Estimated annualised dividend, cover and p/e based on latest annual earnings. N Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. ♦ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings Nov. 9
- Last Dealings Nov. 20
- Last Declarations Feb. 11
- For settlement Feb. 22

3-month call rate indications are shown in Saturday editions.

Calls in ASDA, First Natl. Finance, Ratners, Resort Hotels, Spring Ram and Telemetrix. Puts in Rhino and Rolls-Royce. Double in Proteus Intl.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

Option		Calls			Puts		
[illegible]							
Storehouse (*178)	160	23	27	31	6	8	12
	180	10½	16	21	13	16	22
Trafalgar (*84)	80	9	13	14	4½	7	11
	90	4	8	10	11	13	17
Utd. Biscuits (*330)	330	18	25	29	15	25	29
	360	7	13	17	35	45	48
Unilever (*1052)	1050	41	60	73	30	40	55
	1100	19	36	51	60	69	83
Option		Nov	Feb	May	Nov	Feb	May
Brit. Aero (*132)	130	9	24	32	7	19	28
	140	5	19	27	13	25	35
Barclays (*348)	330	28	40	43	8½	21	24
	360	12	23	27	23	37	41
Blue Circle (*170)	160	19	31	34	8	17	25
	180	9	21	25	19	29	36
British Gas (*281)	280	10	18½	22	7½	13	20
	300	3½	10	13	22	25	32
Dixons (*235)	220	22	32	38	4½	13	16
	240	9	20	28	14	23	25
Eurotunnel (*346)	330	28	48	56	16	25	35
	360	12	31	41	35	47	52

FT-SE INDEX (*2679) / (*2679)

[illegible]								
Dec	241	195	152	112	78	50	29	16
Jan	255	212	172	134	103	73	52	35
Feb	272	232	195	158	130	98	74	55
Jun †	-	275	-	210	-	155	-	105
PUTS								
Nov	½	½	1½	2½	8	34	83	133
Dec	8	12	18	29	44	68	99	141
Jan	18	23	34	44	63	87	119	158
Feb	27	37	47	62	80	104	133	162
Jun †	-	70	-	100	-	-	-	-

November 17 Total Contracts 19,756
Calls 11,999 Puts 7,757
FT-SE Index Calls 4,421 Puts 2,161
Euro FT-SE Calls 410 Puts 625
*Underlying security price. † Long dated expiry months.
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES	Tue Nov 17	Day's change %	Mon Nov 16	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (22)	128.54	+0.09	128.43	2.08	10.99
2	5-15 years (25)	145.70	+0.02	145.67	2.31	11.85
3	Over 15 years (8)	152.41	+0.20	152.11	2.54	10.57
4	Irredeemables (6)	170.98	+0.02	170.94	0.70	13.45
5	All stocks (61)	142.27	+0.06	142.18	2.27	11.64
	Index-Linked					
6	Up to 5 years (2)	184.02	....	184.01	0.51	3.68
7	Over 5 years (10)	167.58	-0.07	167.69	1.08	4.04
8	All stocks (12)	168.59	-0.06	168.70	1.01	3.96
9	Debs & Loans (62)	123.23	+0.36	122.79	2.42	10.48

	AVERAGE GROSS REDEMPTION YIELDS		Tue Nov 17	Mon Nov 16	Year ago (approx.)
	British Government				
1	Low	5 years	7.08	7.12	8.60
2	Coupons	15 years	8.24	8.26	9.48
3	(0%-7¾%)	20 years	8.50	8.52	9.48
4	Medium	5 years	7.43	7.43	9.75
5	Coupons	15 years	8.68	8.69	9.61
6	(8%-10¾%)	20 years	8.88	8.90	9.56
7	High	5 years	7.66	7.68	9.97
8	Coupons	15 years	9.00	8.98	9.69
9	(11%-)	20 years	9.09	9.07	9.61
10	Irredeemables (Flat Yield)		8.85	8.85	9.68
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.40	2.39	3.74
12	Inflation rate 5%	Over 5 yrs.	3.75	3.75	4.22
13	Inflation rate 10%	Up to 5 yrs.	1.55	1.55	3.08
14	Inflation rate 10%	Over 5 yrs.	3.56	3.56	4.03
15	Debs & Loans	5 years	8.80	8.85	11.35
16		15 years	9.88	9.93	11.18
17		25 years	10.08	10.11	11.01

مكتبة الأعمال

هكذا صدر الأصل

COMPANY NEWS: UK

Great Portland shows 7.3% fall to £16.2m

By Vanessa Houlder, Property Correspondent

GREAT PORTLAND Estates, the property investment company, reported a 7.3 per cent decline in pre-tax profits, from £17.5m to £16.2m, for the six months to end-September.

The interim dividend is maintained at 3.4p from flat earnings of 5.6p.

The company expects to maintain its total dividend for the year at 10p, but warned of possible future dividend cuts. "In view of conditions in the property market, shareholders should not assume that the dividend can be maintained at this level," said Mr Richard Peskin, chairman.

He expected second half profits broadly similar to the first. "Since I last reported some five months ago, interest rates have fallen but no real signs of increased economic activity are, as yet, discernible," he said.

The fall in profits was mainly due to a rise in net interest charges from £11.4m to £19.4m, offset by a rise in rental income from £33.3m to £41m. This resulted from a series of acquisitions in 1991-92 which reduced central London exposure from 83 per cent to 67 per cent and increased retail and industrial property from 14 per cent to 24 per cent.

The results benefited from a fall in the effective tax rate to 21 per cent, as a result of tax allowances on capital expenditure and prior year adjustments.

This left post-tax profits at £12.9m, compared with £11.9m a year ago.

Voids fell from 7 per cent of floor area to 6 per cent and from 10 per cent of gross rental income to 7.5 per cent.

Tenants were found for over 125,000 sq ft of space, while 66,000 sq ft returned through lease expiries or tenant failures.

● COMMENT

Yesterday's 7p fall in Great Portland's share price, triggered by the placing of a stake owned by Costain, interrupted their extraordinary recent performance. Over the past month, the shares have risen by more than 30 per cent, as its high dividend yield combined with lower interest rates and a flurry of London investment deals to spark an improvement in investor sentiment. This revival in confidence may now have run its course. Although no one was surprised by yesterday's hint of a forthcoming dividend cut, it underlines the pressures on Great Portland's cash flow. Some 15 per cent of its rental income may be eroded by lease expiries and tenant defaults over the next three years, resulting in, at best, relettings at lower rents and at worst, heavy bills for refurbishment and empty rates. Most analysts expect the dividend to fall by 20 per cent to 8p in the year to March 1994, which would put the shares, at 123p, on a prospective yield of 8.7 per cent. While that must have attractions for income funds, the case for Great Portland's shares is less clear when the falling value of its buildings are taken into account. On the admittedly bearish assumption that net assets fall to 160p by March next year, the shares are on a relatively narrow discount to assets of 23 per cent.

Sedgwick shares rise despite decrease to £55.8m

By Richard Lapper

TOUGH CONDITIONS in the reinsurance and US insurance markets and lower interest rates combined to depress profitability at Sedgwick Group, the insurance broking and services company.

Pre-tax profits fell to £55.8m (£74m) for the nine months to September 30. However, the performance was at the top end of analysts' expectations and the shares rose 8p to 158p.

Sentiment towards Sedgwick and the rest of the insurance broking sector is also improving as a result of a strengthening in the dollar and potential rises in US insurance rates.

Mr Sax Riley, the chief executive who has taken over from Mr David Rowland, said that in the US there were "signs there for something of a change". But following the unexpected downturn in US insurance rates in the second quarter this year, Mr Riley remains cautious.

During the nine months revenues from brokerage and fee income fell to £465.3m (£472.1m). "A substantial proportion" of the decline was due to a contraction in the reinsurance market, he said.

Sedgwick has also been badly hit by the virtual elimination of the marine retrocession, income from which has traditionally a mainstay for the EW Payne reinsurance broking business.

Despite successful interest rate hedging, investment income fell to £37.8m (£44m), mainly due to lower US interest rates. Interest payable rose to £11.3m (£8.5m).

Expenses were marginally ahead at £436.7m (£435.5m) – but increased by 2 per cent in underlying terms – partially reflecting the costs of developing the group's European consulting business.

Although the strengthening of the dollar will boost prospects in the fourth quarter and into 1993, its relative weakness during the first nine months had a negative effect of £1.6m on pre-tax profit.

See Lex

BA's globalisation plan on target

By Paul Betts, Aerospace Correspondent

BRITISH Airways yesterday issued a veiled profits warning for the second half of this year while insisting that its longer term plan to become a global carrier through partnerships and acquisitions remained on course.

After reporting a 22.7 per cent fall to £138m in pre-tax profits in its second quarter, Lord King, chairman, said trading conditions were likely to stay "uncertain" for the rest of the year ending March 1993.

But he said the company had made "significant headway" in its efforts to become a global carrier during the last six months.

Projects included the proposed $750m (£497m) investment in USAir, the Dan-Air takeover , the setting up of a new German subsidiary, Deutsche BA, the acquisition of a large minority stake in the French regional carrier TAT, and the planned launch next summer of Air Russia, a joint venture with Aeroflot, with a few services from Moscow to other large European cities.

BA is also considering bidding for a stake in Qantas, the Australian carrier which Canberra plans to privatise.

But this global expansion strategy faces a number of hurdles. The biggest undoubtedly involves BA's proposed acquisition of a 44 per cent stake in USAir, which is still being fiercely opposed by the three largest US carriers (American Airlines, United Airlines, and Delta Air Lines) unless they can secure greater access into the UK market.

Both Lord King and Sir Colin Marshall, BA's chief executive, remained confident yesterday that the USAir deal would win US government approval by the transaction's deadline of December 24.

Lord King said Mr Andrew Card, the US Transportation Secretary, had recently promised a decision by Christmas Eve. "We are co-operating fully with the proceeding and remain confident that we will achieve a positive decision," he added. But the deal is still bogged down over US demands for open access for US carriers into London's Heathrow airport, BA's home base. So far, UK government negotiators have offered the US a gradual process of greater liberalisation in air services between the two countries in return for US approval of the BA-USAir deal.

US airline executives said in London this week that there were no signs of progress in these negotiations. Without a breakthrough, it is difficult to see the US government clearing the deal. This in turn would represent a setback for BA since the alliance with USAir is the single biggest component in its globalisation strategy.

Lord King would not be drawn yesterday on the possible consequences of US government rejection of the USAir deal. "If there is no approval, the next day will be Christmas day; we will see where we are and have a look inside our stocking," he said.

BA is also still awaiting approval from the French and European Commission regulatory authorities for its £17.3m acquisition of a 49.9 per cent stake in TAT, which would give BA a strong foothold in the French domestic market. Air France is leading a lobbying campaign to block the deal but Sir Colin said BA expected to receive regulatory clearance by the beginning of 1993.

Vosper gains 17% on strong order book

By Roland Rudd

VOSPER Thornycroft, the warship designer and builder, reported a 17 per cent increase in pre-tax profit for the half year to September 27 on the back of more than £700m of orders, mainly for export.

The Southampton-based group increased pre-tax profits from £7.1m to £8.3m on increased turnover of £90.5m (£74.8m).

Profits were boosted by an increase in interest income to £3.8m (£2.2m). Cash rose temporarily to £111m but is expected to fall to about £60m at the year-end as payments are made to equipment suppliers.

Funding delays on the fourth Saudi Arabian minehunter, coupled with last year's deferral of an order for more Sandown class minehunters for the Royal Navy has led to 50 more lost jobs. Losses this year were 150 against earlier predictions of 350.

Mr Peter Usher, chairman, said there would be no more redundancies and hoped to be recruiting by the end of next year.

The recent devaluation of the pound was "tremendous news" and boosted the group's position in the Middle East versus mainly French and German competitors.

The group believes prospects for further orders for ships remain good given unrest and uncertainty in many areas of the world since the end of the cold war.

Non-defence orders were £11m, compared with £3.5m in the first half last year and £13.6m in the year to March 1992.

The group plans a number of selective non-defence acquisitions in the next year.

Earnings per share were 17.8p (15.5p) and the interim dividend is 4.7p (4.1p).

● COMMENT

Vosper has ameliorated the normal risk associated with defence-related companies by ensuring that exports account for more than 95 per cent of its orders. The government's options for change may have resulted in the deferral of a follow-up order for Royal Navy minehunters but that is hardly a significant setback given that MoD orders account for just 3.5 per cent of sales. The group is more concerned about receiving funding for further Saudi Arabian minehunters which is why it wants to by-pass the lead contractor, British Aerospace, and deal directly with Saudi Arabia. With forecast full year pre-tax profits of £19m and earnings of 40p the shares look cheap on a prospective multiple of a little more than 10, representing a 33 per cent discount to the market.

Maxwell raider in London

By Raymond Snoddy

REPRESENTATIVES of Mr Robert Bass, the corporate raider, turned up in London yesterday for talks with banks who are creditors of the late Mr Robert Maxwell.

They are trying to persuade individual banks to consider an offer for the main Maxwell US interests - Official Airline Guides and Macmillan, the American publishing group.

Some banks, apparently acting on the advice of administrators Arthur Andersen and their advisers JP Morgan, have refused to see them. But enough said yes to make the trip worthwhile.

The group led by Keystone, formerly the Robert M Bass Group and Acadia Partners, another Bass vehicle and including Bain Capital, Bear, Streans and DLJ Merchant Banking has bid $725m (£480m) cash for the US businesses.

When liabilities are included Keystone says the total value of their offer is $1.2bn.

The administrators say they are looking for $700m-$1.1bn net of liabilities and that the Keystone approach is too far to the bottom range of their expectations. Because of this the administrators and their advisers say they are sticking to their stated policy of selling off OAG and floating Macmillan sometime next year.

The Bass Group is now approaching individual banks to try to get what they regard as a proper hearing for their case - that their offer, which is close to being fully financed, represents value for assets they believe have deteriorated by as much as 20 per cent since the original targets were set.

Above all the Keystone team want access to up to date information on the businesses so that they can carry out due diligence to see whether their valuation of OAG and Macmillan is realistic or whether there is room for further negotiation on price.

Keystone is understood to be angry that it has been asked to bid more for the businesses while being denied information

Whitegate loss blamed on hot weather

The hot weather in May and June was blamed for increased losses at Whitegate Leisure, the USM-quoted ten pin bowling, discotheques and nursing homes group. In the 26 weeks to June 28 pre-tax losses were £1.41m, against profits of £54,000. Turnover was £10m (£12.2m).

Since July there had been a "noticeable uplift" in trading. The company added that selling five of the six French discotheques and lower interest rates would improve profits.

Operating profit was lower at £669,000 (£2.15m) and interest charges were slightly lower at £1.99m (£2.1m). Losses per share came out at 4.8p (0.1p earnings).

Cost cutting helps ICI Australia increase 33%

By Kevin Brown in Sydney

ICI AUSTRALIA, which is 63 per cent-owned by the UK chemicals group, announced a 33 per cent increase in net profit to A$91m (£41.5m) for the year to end-September. Revenue dipped 2.4 per cent to A$2.7bn.

The group said the improvement reflected cost cutting and efficiency improvements following completion of a series of plant level agreements with trade unions.

The result also benefited from a 38 per cent reduction in interest costs to A$26m following falling interest rates and lower debt. Directors said the result was achieved in spite of "a difficult recession year".

Profit fell by 32 per cent to A$85m after abnormal items, mainly because the 1990-91 result included an abnormal profit of A$58m resulting from the disposal of ICI's interest in Catoleum, an Australian petroleum company.

The board said the continuing impact of increased operating efficiency should lead to a further increase in profits in the current year.

However underlying trading conditions in main overseas markets showed few signs of increased activity and a recovery in petrochemical prices was unlikely because of continuing overcapacity.

The final dividend is 13 cents, making a total of 18 cents (15 cents).

Nestlé paid £30m to take over Clarke

By Peggy Hollinger

Nestlé, the Swiss-owned food group, is believed to have paid slightly more than £30m for the majority of the assets and goodwill of Clarke Foods, Britain's second-largest ice-cream manufacturer which went into receivership last month.

The deal means that trade creditors might salvage as much as 50p in the pound. Clarke had debts of about £70m.

Nestlé is not believed to have taken on Clarke's debts, although it is understood to have reached an agreement over the £6m Clarke owed to Alfa-Laval.

The Swedish company supplied about £12m-worth of equipment to the ice-cream manufacturer after Clarke's purchase and relaunch of the Lyons Maid brand. Delays in the installation of this equipment meant Clarke was unable to manufacture ice-cream in time for the hottest months of the summer. It lost many retail outlets as a result.

The Nestlé bid beat an indirect attempt by Mars to gain the Clarke business.

Singer and Friedlander to market funds in Europe

By Norma Cohen, Investments Correspondent

SINGER AND Friedlander, the investment banking firm, has formed a unit trust company to market investment funds in Europe and take advantage of new legislation easing cross-border sales.

Mr Tony Fraher, managing director of Morgan Grenfell Asset Management's unit trust arm and eight other sales, marketing and management staff will run the new Dublin-based venture.

Fund management services will be provided by Singer and Friedlander and its own stockbroking venture, Collins and Stewart.

Mr Fraher was a director of MGAM and its management committee and was responsible for setting up Morgan Grenfell's unit trust operations which now have £360m under management and several top performing unit trusts.

He said: "We will be taking advantage of the UCITS directive to sell marketable securities throughout the EC and the Far East."

Most Asian countries were prepared to authorise non-domestic investment funds for sale in their own countries if the fund had met EC requirements, Mr Fraher added.

Under UCITS legislation, trusts based in any EC country may be automatically marketed in any other country without special permission. However, cross-border sales of UCITS throughout the EC have stayed low, due mostly to the inability of non-domestic funds to tap into effective distribution networks. In most European countries, investment funds are sold through banks who are keen to push their own products.

Mr Fraher said he would seek to overcome distribution problems by forming a series of joint ventures with domestic distributors. The firm was keen to purchase the assets of a mutual fund company, and would consider a non-UK fund.

Capital down at £8.84m

By Raymond Snoddy

CAPITAL RADIO, the London commercial music station, saw pre-tax profits fall 9 per cent from £9.84m to £8.84m for the year to end-September.

Mr Ian Irvine, chairman, said a difficult year had reflected the continuing depressed state of the economy and a very short term advertising market.

However, costs and turnover had been held and the fall in profit had mainly been the result of extra promotion costs.

Mr Richard Eyre, who joined as managing director last December, also emphasised that Capital's weekly audience reach had increased in almost all social groups despite growing competition.

For all adults in London it grew from 39.7 per cent in October-December 1990 to 43.9 per cent in April-June 1992.

The balance sheet remained strong with cash balances of £19.5m and no borrowings.

Earnings per share fell 7 per cent from 9.4p to 8.7p but the total dividend stays at 5.25p with a final of 3.5p.

A priority this year was to push up commercial radio's advertising share from its present total of just over 2 per cent.

The share price fell 3p on the results and Mr Neil Blackley, media analyst at stockbrokers James Capel, marked down his forecast of pre-tax profits for this year from £10.5m to £9.5m.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
British Airways ....int	3.06	Jan 15	2.94	-	10.18
Capital Radio ....fin	3.5	Jan 14	3.5	5.25	5.25
Cosalt ....fin	6.5	Jan 27	6.5	10.75	10.75
European Motor ....int	1.5	Jan 6	nil	-	nil
Gt Portland Ests ....int	3.4	Jan 11	3.4	-	10
Hazlewood Foods ...int	2.3	Jan 4	2.2	-	6.1
Hicking P'coat ....int	1.35	Jan 7	1.2	-	3.4
Meyer Intl ....int	4.2	Feb 5	4.2	-	16.5
National Power ....int	3.3	Mar 26	3	-	9.1
Readicut Intl ....int	0.63	Feb 10	0.63	-	3.44
River/Merc Amer ....int	1.8§	Feb 5	1.8	-	7.8
Vosper Thorne'ft.......int	4.7	Jan 19	4.1	-	13.1

Dividends shown pence per share net except where otherwise stated. §Third interim.

Meyer halved at £8.5m

MEYER International, which owns the Jewson builders' merchants chain, saw pre-tax profits tumble from £16.5m to £8.5m in the half year to September 30, writes Jane Fuller.

This followed £2.6m of rationalisation costs as a further 400 jobs were cut.

Operating profit slipped from £18.5m to £17.9m on turnover of £540.5m (£566.7m). Interest payments of £6.8m (£7m) and a lack of property profits did the rest of the damage to the pre-tax figure. One off-setting factor was the disposal of a loss-making plumbing distributor.

Mr Richard Jewson, chairman, said that the devaluation had added £13m to debt translated into pounds. A deferred payment for a German company had also extended borrowings and year-end gearing was expected to rise from 40 to 50 per cent.

In the UK, the group had been simplified into two divisions, Jewson and Forest Products. This continuing process might double the exceptional charge for the full year.

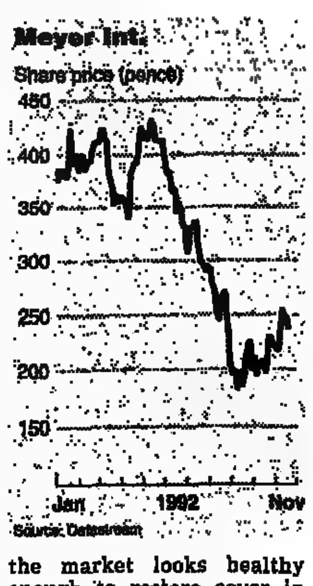
Jewson's operating profit fell to £7.1m (£11.4m). Forest Products improved to £4.6m (£4.2m) profit and Laminates recovered to £1.5m (£700,000).

PontMeyer in the Netherlands declined to £4.4m (£5.5m) as the market deteriorated. The German section contributed £600,000 (£500,000).

Earnings per share fell to 6.2p (12.9p). The interim dividend is maintained at 4.2p.

● COMMENT

As a leading light among the builders' merchants, Meyer was given the benefit of the doubt for a long time before the recovery story turned sour. Its share price has halved since August last year. Mr Jewson, who came from the heart of the business, has had to act like a new broom – clearing out past mistakes and rationalising from the branches upwards. If it were not for balance sheet worries and dividend doubt, this ought to be the low point for sentiment. Paying an uncovered final dividend may depend on whether the market looks healthy enough to restore cover in 1993-94, which is a moot point. A forecast full-year profit of £15m gives a prospective p/e of 22. Even if the final dividend is halved the prospective yield is nearly 6 per cent, which gives some support.



Convenience and ready meals lift Hazlewood

By Maggie Urry

STRONG GROWTH from Hazlewood Foods' convenience and ready meals offset falling tomato prices to push interim profits up by nearly 7 per cent, from £23.1m to £24.7m.

Full impact of shares issued for the Sutherland acquisition in September last year held earnings per share growth to 0.8 per cent at 7.62p (7.56p).

Mr Peter Barr, executive chairman, said "further progress in the second half is expected". The interim dividend goes up from 2.2p to 2.3p "as an indication of confidence about the second half".

Sales in the six months to end-September rose 24 per cent to £364.8m (£294m). Mr John Simons, finance director, said stripping out acquisitions, mainly Sutherland, and exchange effects, underlying growth was 3 per cent. However, lower prices in many areas meant underlying volumes were 7 per cent higher.

Operating profits rose 12 per cent to £30.4m. Underlying growth was 4 per cent, Mr Simons said. The benefit of sterling's devaluation would be more important in the second half, he added.

Although operating profit margins appeared to slip, Mr Simons said this was because of the inclusion of Sutherland's lower margin distribution activity, and comparable margins were maintained.

Interest charges rose from £3.93m to £5.71m as debt increased £29.9m to £139.6m, lifting gearing to 87 per cent. This came mainly from high capital expenditure of £21.7m.

Mr Simons said interest cover of 5.3 times (6.9 times) was comfortable. Also the group had arranged a $80m (£52.5m) placement of seven year debt in the US which had been swapped into guilders, to match the group's assets in the Netherlands. This would enable Hazlewood to repay all its short term debt.

Within the divisions, operating profits from ready meals rose from £3.6m to £5m and from convenience foods from £2.3m to £6m. The glut of fresh produce, such as tomatoes, in Europe cut profits in that division from £4.8m to £1.6m.

In shellfish, a recovery was made from the problems of the Dutch cockle industry and profits rose from £3.1m to £4.5m. Meat profits fell from £3.9m to £3.5m, with £250,000 of the drop caused by a recall of pork products in September, although these turned out not to be contaminated. Profits in other divisions were flat.

● **COMMENT**

Given the traumas much of the food industry has been through this summer, Hazlewood has done well even to edge earnings up. And for once the company does not have to apologise for any nasty surprises. It appears capable of making much more out of the ready meal and convenience foods areas, though the continental operations may find life tougher as recession reaches its customers. The main concern is the level of debt. But this is in a good cause as Hazlewood wants to seize as many opportunities as it can. And the US debt placement should have prevented any short term crunch. With forecasts still about £55m (£51.3m) pre-tax for the year the prospective p/e of 8.2 leaves something to go for.

Staff cuts behind National Power rise

By Michael Smith

HIGHER THAN expected job cuts helped National Power, the electricity generator, to increase pre-tax profits from a restated £182m to £201m in the six months to September 27.

The improvement was achieved in a total market that was down by half of a percentage point, the company said. Demand from the industrial and domestic sectors fell by 2 per cent and 1 per cent respectively, whereas the commercial side rose by 2 per cent.

Turnover fell 8 per cent to £1.97bn, partly because of lower sales volumes but principally through a reduction of £97m in contributions recovered from consumers and passed on in the form of support payments to British Coal.

The number of people employed has fallen by 17 per cent to 9,500 since the end of March and 28 per cent since September. Productivity, as measured by output per employee, was 24 per cent up year on year.

Mr John Baker, chief executive, said the employed number was likely to be about 8,000 by the end of March. He also disclosed that a tentative agreement had been reached with unions for a 15-month pay deal with employees which will provide a lump sum of up to £2,000 together with wage rises of 3.95 per cent.

The deal is conditional on employees of acceptance of performance-related pay and flexible working.

In the half year fuel costs of £973m were down 1 per cent, mainly as a result of lower sales volumes. Fuel costs per unit rose 4 per cent.

Net borrowings at £283m compared with £326m at the year end.

The debt equity ratio was 13.3 per cent.

The interim dividend is increased from 3p to 3.3p. Earnings per share were 11.53p (10.12p).

Mr Baker said trading in the opening weeks of the second half of the year was broadly in line with expectations.

See Lex

Instrumenting a policy of growth

Paul Taylor reports on the strategy that put Bowthorpe back on a rising profits trend

WHEN Bowthorpe announced a 5 per cent increase in interim pre-tax profits last month the Sussex-based group, with products ranging from cable ties and heat sinks to black box flight recorders, signalled it was back on the growth track.

Last year profits fell by 11 per cent to £40.3m on turnover of £220.5m, ending a 15-year unbroken growth record and proving that even with 51 per cent of its business outside the UK, the group was not recession proof.

After more cost cutting and restructuring, Mr John Westhead, the group's notoriously cautious 64-year-old chief executive, felt confident enough last month to forecast a "modest improvement" in full year profits.

Bowthorpe is one of the relatively few successful, medium sized, international electrical and electronics companies in the UK. But in terms of operating assets its manufacturing base is split between the UK (£23.1m), continental Europe (£38.9m), the US (£22.6m), and the rest of the world (£13.9m).

The company, which was founded in 1936 with £2,000 of borrowed capital by Jack Bowthorpe, a GEC ledger clerk, has had overseas operations since 1957. It now comprises some 70 operating units in more than 20 countries.

Bowthorpe has been guided for the last decade by a down-to-earth business strategy set out by Mr Westhead after he became managing director in 1980, having joined the group the previous year.

The linchpin of this strategy has been to acquire and build specialised international niche businesses. These small-to-medium sized operations are run globally by managers who have substantial autonomy, understand their businesses, and are subject to the minimum head office interference.

"With small companies you have to be careful you don't strangle them with financial controls – but you also have to keep an eye on them," says Mr Westhead. He has no time for fancy management theories and fairly bristles at the mention of concepts like "matrix management."

The group also uses a refreshingly simple check-list approach towards selecting its acquisitions. Among the criteria targets must have significant barriers to entry, like patents or process know-how, be capable of generating significant economies of scale, but must also be in markets where volumes are unlikely to attract the big multinationals.

The group also seeks out businesses which have fairly diverse applications. Even its biggest market, construction, accounts for only 13 per cent of turnover and, perhaps surprisingly, the defence sector represents just 7 per cent.

One consequence of this strategy is that Bowthorpe faces a different set of competitors in each of its specialised international businesses. These include cable care products such as the ties which hold bundles of wires together, electrical terminals and connectors, thermal electronic components, electronic power supplies and a growing portfolio of electronic instrumentation equipment. In most of these Bowthorpe is either the world leader, or among the top three manufacturers.

Latest niche market to be targeted by Bowthorpe is the instrumentation business. The group has been steadily building up a portfolio of companies on both sides of the Atlantic manufacturing products for measuring humidity, microwave and radio frequency radiation, equipment for high-speed data acquisition and appliance testers.

As part of this push the group has acquired three companies in the fast growing data acquisition field in the past year, Penny & Giles, the UK-based manufacturer of aircraft flight recorders, and B&D Instruments and Odessa, both based in the US.

Applications for data acquisition and measurement products include the growing market for environmental monitoring equipment – Odessa makes the equipment which measures and records pollution emissions from industrial chimney stacks.

"The group has identified the data acquisition market as an area where these companies have leading technology," says Mr James Heal, an analyst with Hoare Govett in London. He believes that profits from instrumentation companies could bolster the group's compound growth rate by 3 per cent over the next 18 months, and that sales in this area could account for almost 20 per cent of turnover within the five years.

However, like other analysts, he also believes that if Bowthorpe's strategy has a weakness, it is that one of its niche operations will grow big enough to attract multinational competitors. Environmental monitoring equipment could be just such a business.

The market in the US is being driven by Federal legislation which allows companies to discharge a limited amount of toxins into the atmosphere – or trade their quotas with other companies. The US market for environmental monitoring equipment is expected to grow at a compound rate of 35 per cent between now and the mid 1990s.

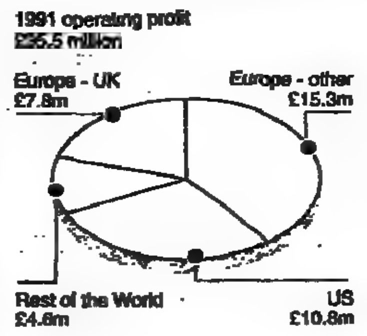
If Europe was to adopt similar legislation some analysts believe the market could become large enough to attract big multinationals and that might force Bowthorpe to reassess its strategy.

More immediately Bowthorpe will benefit from the relative strength of the dollar against sterling. With almost 30 per cent of its £38.5m operating profits last year coming from the US, Mr Heal estimates that the dollar's strength could add £3m to 1993 pre-tax profits.

On this basis he is forecasting pre-tax profits of £48m next year, producing earnings per share of 16.3p. This prospect, and a strong balance sheet, has helped lift the share price, which has gained more than 50 per cent in the past three years, to about 275p, close to its peak of 283p recorded earlier this year.

Bowthorpe Holdings

1991 operating profit £25.5 million



1991 turnover by markets Total: £220.5m

	%
Construction	13
Industrial equipment	12
Computers	9
Automotive	9
Power	8
Defence	7
Telecom	7
Switch & control gear	7
Medical	4
Leisure	3

Source: Company report

Hicking Pentecost boosted by sharp cut in interest charges

By Peggy Hollinger

HICKING Pentecost, the industrial products and textiles company, reported a 44 per cent increase to £1.63m in pre-tax profits for the six months to September 30 on the back of substantially reduced interest charges.

Mr David Lister, chairman, said he was confident the strong performance would continue in the second half.

The interim dividend is raised 12.5 per cent to 1.35p, while earnings per share rose to 7.73p (7.19p).

Mr Tudor Davies, managing director, said knitwear exports increased by 30 per cent in the first half. The group was likely to benefit further from the fall in sterling.

Knitwear represents some 75 per cent of group sales, though it has been gradually diversifying away from textiles since 1989 when Messrs Lister and Davies were appointed.

Acquisitions, such as Nicholson Plastics, the water tank maker included for a full six months this time, helped sales rise from £12.2m to £13.6m. Operating profits advanced from £1.36m to £1.67m.

Mr Davies said the underlying performance of the industrial products division remained roughly level with last year.

Interest payments were cut from £230,000 to £24,000. This was partly due to strong cash generation and also to the £4.5m rights issue in June 1991, launched to pay for Nicholson. Debt, however, was slightly higher at the interim stage at £1m, against £700,000.

Cosalt dives but holds dividend

By Matthew Curtin

PROFITS OF Cosalt, the Grimsby-based diversified industrial group, fell 24 per cent to £1.88m pre-tax for the year to August 30.

However, the total dividend is maintained at 10.75p, via a final of 6.5p.

Earnings per share worked through at 11.1p (15.08p).

The shares rose 7p to 143p.

Mr Bill Wood, finance director, said the group was now in a healthy position "having cut out the loss-making and risky parts of our business".

Nonetheless, a markedly improved performance this year was dependent on economic recovery in the UK.

The recession, particularly in the fishing industry, dented profits at the group's fibres and safety equipment divisions.

Mr Wood said the group had continued to reduce its exposure to the fishing industry, which now accounted for some 10 per cent of its business compared with more than half five years ago.

Loss-making Cosalt Caravans was sold in September, and the group made an extraordinary £2.06m provision for the disposal of the business.

The overall results were bolstered by better performances from the work clothing division and Cosalt Holiday Homes, although operating profit slid 35 per cent to £2.37m.

Mr Wood said phase one of Cosalt's £4m North Shields property development was not going as well as expected, although lower costs and good prices offset sluggish sales.

Electricity distributors merge retail activities

By David Lascelles, Resources Editor

EAST MIDLANDS Electricity and Yorkshire Electricity, two electricity distributors with adjoining markets, are to merge their retailing and appliance servicing operations.

The new company, a further sign of consolidation in the electrical business, will be equally owned by the two distributors, and will have a turnover of more than £125m.

It will operate as an independent company based in Normanton, West Yorkshire, with Mr Martin Watts as managing director. The site belongs to Yorkshire and East Midlands will make an undisclosed compensating payment.

Mr John Harris, chairman and chief executive of East Midlands, said the merger would yield significant economies of scale with increased distribution efficiency and the centralisation of head offices.

He also forecast "an excellent opportunity to increase margins" thanks to the larger company's stronger purchasing power. But the merger will entail an unspecified number of job losses.

Mr Malcolm Chatwin, chief executive of Yorkshire, said the company would operate through seven out-of-town superstores and more than 100 high street shops.

The merger comes shortly after the decision by Midlands Electricity to join the retailing operation formed by Eastern Electricity and Southern Electricity. That business, with 311 shops and a combined turnover of about £250m, ranks as the UK's third-largest electrical retailing business.

Although regional electricity companies are keen to diversify into retailing, many of them have had difficulty making a profit. Yorkshire's business made a modest profit last year after recovering from loss. East Midlands' business made £1.3m in its last full year.

Currency gains and cost cutting helps Readicut

By Angus Foster

READICUT International, the household textile, carpeting and yarn company, yesterday reported a small increase in profits helped by currency gains and cost cutting.

Pre-tax profits increased 6 per cent from £5.67m to £6.01m in the six months to September 30.

The previous year's figure was boosted by undisclosed insurance gains of a "few hundred thousand". The shares gained 3p to 72p.

Mr Clive Shaw, managing director, said most markets remained difficult. "There are signs the US is coming back, but Europe is going down."

Turnover increased 3.6 per cent to £106.7m (£103m). Of the increase, £2.3m came from currency gains and £1.4m from like-for-like increases. Exports from the UK increased strongly before sterling's fall, Mr Shaw said.

In the UK, carpet sales fell despite further switching from high street to contract sales, but Firth Furnishings, a supplier of carpets and trim to the car industry, performed well. Russells Rubber, which makes moulded rubber for car doors, was helped by a large contract from Iran.

Despite the fall in interest rates, interest costs were little changed at £1.35m (£1.36m). Capital expenditure increased from £4m to £7.3m. For the full year expenditure is expected to increase to £12.5m, compared to depreciation of £8.7m.

Readicut continued to reduce its workforce and UK staff fell by 77 to 3,100. Redundancy costs were £358,000 (£175,000).

Year end gearing is expected to be "in the low 20s", according to Mr Shaw. This compared to net borrowings of £11.5m and gearing of 19 per cent at March 31.

Earnings increased from 2.01p to 2.12p. The interim dividend is held at 0.63p, covered 3.4 (3.2) times.

CRH in I£22m expansion

By Tim Coone

CRH, the Dublin-based building materials group, has further expanded its overseas operations with acquisitions totalling I£22m (£24m).

In the Netherlands it has almost doubled the number of builders' merchants outlets to 28 through two acquisitions. The purchase of Braks gives it five new outlets, while a further seven outlets are added through the purchase of Monster.

In the US, the company has added two asphalt plants and a sand and gravel operation in New Hampshire with the acquisition of Midway Excavators and in Texas has bought Jewell Concrete, a manufacturer of concrete products for the home improvement sector.

In the UK, CRH is expanding its tarmac business with the acquisition of Essex-based Fitzpatrick Asphalt.

Staff reject Waterford Crystal plan

By Tim Coone in Dublin

WATERFORD CRYSTAL, the Irish crystal division of Waterford Wedgwood, suffered a new setback with the rejection by staff on Monday night of its latest make-or-break rationalisation plan.

The workforce at two of the company's three plants voted down the plan, which calls for 500 redundancies out of the 1,900 total of employees, across-the-board wage cuts, and an industrial peace agreement for five years.

A secret ballot is scheduled for tomorrow at the third plant.

Mr Walter Cullen, the Waterford district officer for the Amalgamated Transport and General Workers' Union, said: "These cuts are unbearable, inequitable and unacceptable. The levels of wage cuts are just too much." The ATGWU has costed the cuts at I£5.61m (£6.12m).

When Mr Paddy Galvin, the division's chairman and chief executive, announced the rationalisation plan last August he warned that its rejection by the unions could mean the end of the company's operations in Ireland.

In the past six years the crystal division has lost I£66m, due to rising costs, and declining markets exacerbated by recession in its principle markets in the US and UK.

Rationalisation has resulted in 1,400 redundancies so far since 1987, while short-time working over the past 18 months has further enabled losses to be trimmed.

In the results for the first half of 1992 the division reported a slip in losses to I£3.2m for the half year despite a 16 per cent increase in sales. The company blamed "unabsorbed overheads" related to increased short-time working.

The company said the dispute was likely to go back to the Labour Court if all three plants rejected the plan but it remained hopeful that the door had not yet been closed to further negotiation.

The strategy is to scale back production of up-market stemware at the Waterford plants to adjust to the new lower demand levels, and to substitute some of its more traditional lines with partially-machined stemware from Germany.

The machine-cut "Marquis" range, introduced to the US market in 1991, has apparently sold well.

Plan extends life of Yeoman Inv Trust

By Philip Coggan, Personal Finance Editor

YEOMAN Investment Trust has produced new restructuring proposals following an earlier plan which was abandoned in August.

The split capital trust is due to be wound up next month but the new plan, devised by brokers Greig Middleton, will extend its life for a further six years. The previous proposals had involved a seven year extension.

Yeoman's original plan was blocked by the reluctance of Orion Insurance, a principal income shareholder, to support the proposals. Orion's stake – 24 per cent of the income shares – was bought by Abbey Life.

Abbey Life will also be the new manager of the trust when the present manager, Mr Rodney Pellatt, retires next year. Mr George Yoxall, managing director of Abbey Life Investment Services, said there were no discussions of the management contract before Abbey bought the stake, which was originally acquired for its attractive redemption yield.

Abbey's management fee will be 0.3 per cent of total assets per annum, no higher than the previous charge.

The new plan is designed to meet some of the objections to the previous scheme. In particular, income shareholders will be offered a cash exit at 100p, an option unavailable in the earlier plan. If shareholders opt to hold on to their income shares the new redemption value – in December 1998 – will be 50p.

Three institutions, holding some 71 per cent of the income shares, have approved the scheme in principle.

Capital shareholders are being offered zero dividend preference shares on a 1-for-1 basis.

Conversion will be based on mid-market asset value. Greig Middleton has undertaken to find standby purchasers of the zeros, effectively giving capital shareholders a cash exit. In addition, Greig Middleton is seeking sub-underwriters to buy capital shares from those holders who are unwilling to convert into zeros.

The zeros will offer an annualised redemption yield of 9.3 per cent between issue and maturity in 1998.

An extraordinary meeting will be held on December 21 to approve the proposals.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 18.11.92 Pool purchase price £/MWh	Final Prices for Trading on 17.11.92 Pool purchase price £/MWh	Pool selling price £/MWh
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[illegible]	[illegible]	[illegible]	17.66
[illegible]	[illegible]	[illegible]	17.62
[illegible]	[illegible]	[illegible]	27.62
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[illegible]	[illegible]	[illegible]	17.72

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COMMODITIES AND AGRICULTURE

Lively export market boosts Chicago grains

By Laurie Morse in Chicago

NEWS THAT the record US maize crop is being shipped overseas at a healthy rate has taken pressure off grain prices at the Chicago Board of Trade. Maize for December delivery surpassed $2.12 a bushel yesterday, and having passed that mile stone, continued on to score a high of $2.15¼ in late trading.

Chicago wheat futures were continuing Monday's advance, also supported by export news.

December futures contracts for maize and wheat in Chicago are close to expiry, and as next Friday's first notices for intended deliveries approach, commercial grain merchants and the investment funds that operate in grain futures for profit are engaged in their usual brinkmanship. The funds were said to be buying maize yesterday to cover previous sales.

US grain prices have been on the rise in spite of the US Department of Agriculture's upward revisions of crop estimates last week. In its regular monthly report the USDA said the US maize crop would be a record 9.33bn bushels – a 4 per cent increase from its October estimate. The US soyabean harvest has also reached record proportions, and is now estimated at 2.17bn bushels, a 9 per cent increase over 1991.

Traders said the huge crop had already been factored into futures prices and that as the harvest is completed quality factors would begin to come into play. "Historically, the corn [maize] crop doesn't get any bigger [after the November USDA estimates]," says Mr Warren King, senior grain analyst with Cargill Investors Services. About 1bn bushels of maize remain in the fields and while the harvest could be completed this weekend, winter storms in Iowa and Ohio have left fields wet and in poor condition.

The abundant harvest has forced some farmers to store their excess out-of-doors, and that grain, as well as some of the late-harvested maize, is expected to test poorly for starch and oil content and be subject to mould. "I expect we will be paying a premium for quality corn next year," Mr King said.

In a regular weekly report on Monday, the USDA said wheat and maize shipments were running ahead of last year's. Last week 36.8m bushels of maize and 32m bushels of wheat were inspected for export, well above grain trade estimates.

December wheat futures, which closed on Monday at $3.76 per bushel, have gained about 40 cents since the September announcement that the US Export Enhancement Program was itself being enhanced prior to the national elections.

Of the 29m tonnes of wheat exports targeted for the programme, about 12m have been sold. Yesterday USDA approved EEP wheat sales to Algeria and Morocco.

● CBoT soyabean prices rose on fund buying and talk that China might be in the market for US soyameal as well as last week's large exports, traders said, reports Reuter. The rise was also aided by news that 22.97m bushels of soyabeans had been inspected for export.

Moonlight vigil for Christmas tree growers

By David Blackwell

THE LAST full moon before Christmas has been carefully noted by a motley band of criminals intent on muscling in on the £40m UK market for Christmas trees.

This year it falls on December 9, but members of the British Christmas Tree Growers Association said yesterday they would be taking all possible precautions. "I have my compound floodlit, with a 24-hour security patrol," Mr John Godwin, president of the association, said yesterday.

Those with ambitions to sell stolen Christmas trees from the back of a lorry could have the European Single Market in mind. In summer the association met European growers to agree a system of standard measurements and quality. However, the Euro-Christmas tree is still some way off – the new rules remain "advisory and voluntary."

"Very few trees will match the specifications this year," said Mr Godwin. "But it's a start."

About 40 per cent of British homes are decorated with real Christmas trees – a market of 5m trees. In normal years about 1.5m trees are imported, mainly from Denmark and Belgium. However, this year sterling's devaluation is likely to make imports up to 20 per cent more expensive than they were last year, according to the association, while British trees are likely to be just 5 per cent up.

Prices for a 6-foot to 7-foot tree will range from £10 to £25 "in the more expensive parts of London", according to Major General Tony Richardson, secretary of the association. He was expecting demand to be strong for British trees, which he said were "in super form" after the wet summer.

The association, which boasts 225 growers, points out that the trees are grown specifically for the Christmas market, so that people should not feel they are damaging the environment by buying a real tree.

There are an estimated 40m trees growing in the UK, annually soaking up around 50,000 tonnes of carbon dioxide from the atmosphere. After Christmas the trees can be converted into woodchips.

In contrast, artificial trees – about 1m are sold each year – "are made from irreplaceable fossilised fuels and they contribute nothing to the improvement of our atmosphere", the association points out.

Exports add savour to Chile's fruit cocktail

David Dodwell on the country leading the southern invasion of northern markets

SOUTHERN hemisphere fruit exporters have doubled their sales to the northern hemisphere in the past decade – but Chile's "exceptional dynamism" has enabled it to grab almost three quarters of total gains.

According to a new study by Mr Jean-Marie Codron in the latest edition of Agribusiness, significant further headway can be expected during the coming decade, though it may be accompanied by rising protectionism, and intensified trade conflict in certain fruits – particularly apples and kiwi fruit in Europe and table grapes in the US.

Protection may be best organised in the unified market of the US. But this may be disguised by the use of health and food safety laws, he warns. Best growth will come in currently-closed markets like Japan and South Korea.

The gains made by the southern hemisphere exporters – which include Chile, New Zealand, Argentina, South Africa and Australia – have been made possible by new technologies and faster transport as well as substantial investment by multinationals, which have been particularly active in Chile.

Mr Codron's study charts the startling emergence of Chile to become the southern hemisphere's dominant fruit exporter. Between 1974 and 1990, its exports of temperate fruit soared from 74,000 tonnes a year to 888,000 tonnes. At the same time, all southern hemisphere exporters together raised exports from 824,000 tonnes to just over 2m tonnes.

While New Zealand exporters also boosted sales – from 74,000 tonnes in 1974 to 386,000 tonnes in 1990 (mainly due to demand for kiwi-fruit) – all other exporters from the southern hemisphere either stagnated or fell back. Only Chile has managed significant diversification, ranging from new varieties of grapes to a range of stone fruits like plums, peaches and nectarines.

Mr Codron traces a number of reasons for the spectacular growth in Chile's fruit exports:

● It is close to the US, with its fruit industry built up in direct consultation with Californian professionals.

● A broad climatic range allows it to produce a wide variety of fruits, across a long harvesting season. Grapes, for example, can be picked from November in the northern Valley of Copiapo to April in Talca province 1,100 km (680 miles) to the south.

● It offers natural protection against exotic diseases and pests, mainly because of its extraordinary isolated position, with the Pacific to the west, the Andes to the east, the Atacama desert to the north and Antarctica to the south.

● Availability of fruit during the normal "low" season allows exporters to use cheap transport and to have frequent and regular ship departures.

● Multinational investors have given Chile access to "the most modern channels and the most modern markets", using efficient transport and distribution systems, Mr Codron says. The country "has forged solid commercial experience which it should be able to draw on when Europe ceases to be a mosaic of markets and regulations".

● It has comparatively cheap labour and recently a better record of political stability than countries like like South Africa or Argentina.

Chile's success is not without attendant dangers, however. In opting to rely on multinationals "the country has taken a large risk which could one day turn against it", Mr Codron notes. Chile's success is also attracting the anger of Californians, who are "ready to resort to any methods. . . by manipulating the quality and phytosanitary [plant health] regulations" to block grape imports in the six weeks leading up the start of their season late in May.

In Europe, where the market for grapes is "still a long way from saturation levels", conflict is likely to be focused on easily stockable products like apples, pears and kiwi fruit. While competition will be "more threatening", Mr Codron forecasts that southern hemisphere exporters will continue to raise sales, reinforcing Europe as the main export market for southern hemisphere fruits. This is not least because of the ineffectiveness of recent protective measures put in place: "One wonders whether the European Community is not looking today to withdraw progressively its support from producers", he muses.

The damp squib of the past two decades has been Australia, which has seen its exports of temperate fruits slump from 115,000 tonnes in 1974 to a meagre 53,000 tonnes in 1990. Argentina has also stagnated, with exports rising over the same period from 305,000 tonnes to 382,000 tonnes. Both have been complacent, Mr Codron argues, because a combination of a small population and a large area of potential farm land has discouraged intensive farming techniques.

Argentina has also been diverted by historic demand from Brazil, a strategic mistake given that country's severe foreign exchange problems, and the rapid growth in the output of its own fruit growers.

South Africa, so long a pariah, could become a serious competitor with Chile in Europe now that it has turned its back on the policies of apartheid.

Few of the gains of the past 20 years would have been possible without new technologies and speedier transport – particularly for perishable fruit like nectarines, plums and apricots. Fast refrigerator ships now allow Chilean exporters to deliver fruits to Rotterdam in less than 22 days – compared with 30 days or more a decade ago. Journeys to Philadelphia take less than 15 days compared with three weeks.

Controlled atmosphere techniques have also been important in extending the growing season for fruit – like early ripening of pears using ethylene, or slowing down the ripening process.

The effect of these changes will be intensification of competition in Europe, with southern hemisphere exporters like Chile and South Africa continuing to make headway. The wild card for Chile in particular will be Japan – a coveted but still-elusive market that offers the prospect of making Chile not just the leading southern hemisphere fruit exporter, but one of the most powerful suppliers in the world.

SOUTHERN HEMISPHERE FRUIT EXPORTS ('000 tonnes – Apples, pears, grapes, kiwifruit, nectarines)

	1974-76*	1979-81*	1984-86*	1989-90†
Chile	74	253	529	888
Argentina	305	324	292	382
South Africa	256	253	309	358
Australia	115	81	60	53
New Zealand	74	101	233	386
Total	824	1,012	1,423	2,067

Sources: FAO, USDA. *three-year average, †two-year average.

Russian gold plan still in doubt

By Leyla Boulton in Moscow

A LONG-RUNNING controversy over whether a small Australian mining company should be allowed to develop Russia's largest hard rock gold deposit appears far from over despite the Australians' claims to a done deal.

Mr Boris Yatskevich, deputy chairman of the State Geology Committee, said that the local Siberian producer in which the Australian company, Star Technology, has undertaken to buy a 51 per cent stake, did not hold a valid licence to the Sukhoi Log deposit.

He said this was because Lenzoloto, the Russian producer, had failed to confirm an earlier licence to the deposit with his committee within a month of the appearance in July of new Russian legislation on licensing this summer. He also suggested, however, that this permission would not have been granted anyway because the deal harmed Russian interests. "If you've got a fine diamond why give it to a middleman. I've been looking for a legal way to stop this deal and I have found it."

A lawyer for Star, however, cited a resolution by Mr Yegor Gaidar, the acting prime minister, ordering the Committee to ensure the right of succession for Lenzoloto, as a newly-formed joint-stock company, to the resources for which it held licences when it was still an ordinary state-owned enterprise. Mr Yatskevich said, however, that the resolution, issued in April, had been superseded by the licensing legislation that appeared afterwards.

He said he believed that Mr Gaidar, who also happens to be under severe political pressure to support Russian industry, would "follow the letter of the law and the interests of Russia" by putting the prized deposit to a tender reserved for Russian companies. If that failed to attract adequate backing for the project, major foreign mining companies such as the UK's RTZ, the world's biggest mining group, which had all expressed a interest in the project, would be invited to second tender.

He expected Mr Gaidar to take a decision on the issue very shortly.

Star and Lenzoloto have been saying that all they are waiting for now to close the deal is the declassification of information about the undeveloped mine – which like anything to do with gold in the former Soviet Union been a state secret.

But the information has so far not materialised, and, according to Mr Yatskevich not just because of resistance by the Interior Ministry and the Economics Ministry to declassification – but because Russia had no taken a final decision on whether Star should have access to the information.

Argentina and EC move closer to fisheries deal

By John Barham in Buenos Aires

ARGENTINA and the European Community have come closer to a fishing agreement, negotiators said after a third round of talks ended in Buenos Aires at the weekend.

The two sides are negotiating an accord under which community vessels would be allowed to fish in Argentine waters, at present closed to foreign ships, in exchange for reduced tariffs on its exports to EC markets plus an aid and investment package.

A community diplomat said the two sides had "reached a substantial level of agreement on the text and both sides are looking at the text with a view to initialling it before the end of the year". An Argentine official was more optimistic, saying it should be signed by the end of this month.

Negotiators have been searching for a form of words that circumvents Argentine law banning foreign fishing vessels from its waters. The treaty is expected to allow EC vessels to operate in Argentine waters on a joint venture, charter or temporary lease basis. The difficulty is that flying the Argentine flag would force EC ships to submit to restrictive local regulations. Under previous accords EC ships sail under their national flags.

Another delicate item involves Argentina's claim to the Falkland Islands, which are held by Britain. The British have apparently won concessions that exclude the Falklands' waters from the accord and limit the quota of Illex squid available under the community accords. Argentine last month announced that it would compete with the islanders for the lucrative squid catch, at present monopolised by the Falklands.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,665-1,745 (1,675-1,735).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.25-2.45 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 0.60-0.70 (0.65-0.75).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 16.50-17.50 (15.75-16.75).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 135-145 (130-150).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.05-2.15 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.50.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 45-55 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 1.75-1.85 (1.80-2.00).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 8.00 (same).

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	+375	to 1,[illegible]
Copper	+2,000	to 2[illegible]
Lead	−750	to 194,250
Nickel	+432	to 60,222
Zinc	+3,450	to 380,200
Tin	−85	to 14,[illegible]

WORLD COMMODITIES PRICES

MARKET REPORT

London's robusta **COFFEE** futures eased back to end around $17 down on a spate of profit-taking, despite setting an early nine-month high of $990 a tonne. The profit-taking was adding to a correction which could take the New York March arabica contract back to around 70 cents a lb, and the London January robusta to the $950 a tonne. One dealer said the market could need a couple of days' rest to slow the tempo of the rise rather than an actual price retracement. On the LME **LEAD** closed firm against a background of positive charts. Dealers cited good recent trade interest, with prices touching five-month sterling lows, or, in dollar terms, the lowest levels for some six years at $459 a tonne. **COPPER** was steady – dealers said there was little fundamental justification for higher prices, so rallies were likely to be sold into. **ALUMINIUM** edged ahead – late news of a possible strike at Pechiney confirmed reports circulating earlier and provided a supportive backdrop.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)(Jan)		+ or -
Dubai	$17.15-7.20u	-0.10
Brent Blend (dated)	$19.10-9.20	-.075
Brent Blend (Jan)	$19.15-9.20	-.075
W.T.I (1 pm est)	$20.25-0.30u	-0.10
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$205-208	
Gas Oil	$185-187	-1
Heavy Fuel Oil	$90-92	+1
Naphtha	$187-189	+1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$334.15	-1.60
Silver (per troy oz)♣	376.5c	-4.0
Platinum (per troy oz)	$352.25	-1.50
Palladium (per troy oz)	$94.75	-0.15
Copper (US Producer)	100.5c	+0.5
Lead (US Producer)	33.50c	
Tin (Kuala Lumpur market)	14.28r	-0.08
Tin (New York)	262.5c	-5
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	110.24p	+2.62*
Sheep (live weight)†♣	73.96p	+1.63*
Pigs (live weight)†	85.60p	-2.96*
London daily sugar (raw)	$221.0w	-2.0
London daily sugar (white)	$256.5w	-1.5
Tate and Lyle export price	£255.0	-0.5
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£149.0	
Wheat (US Dark Northern)	Unq	
Rubber (Dec)♥	63.50p	+0.25
Rubber (Jan)♥	63.50p	+0.25
Rubber (KL RSS No 1 Dec)	223.5m	+1.0
Coconut oil (Philippines)§	$505.0y	-2.0
Palm Oil (Malaysian)§	$417.5t	
Copra (Philippines)§	$327.5	-5.0
Soyabeans (US)	£168.0z	-1.0
Cotton "A" index	52.85c	
Wooltops (64s Super)	414p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb r-ringgit/kg.t-Dec. y-Jan/Feb u-Jan. w-Dec/Jan. z-Nov/Dec †Meat Commission average fatstock prices * change from a week ago ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♣Sheep prices are now live weight prices.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Dec	198.00	199.00	197.00 192.00
Mar	195.00		193.00 190.40
May	197.00		196.60
White	**Close**	**Previous**	**High/Low**
Mar	257.00	257.00	257.00 255.00
May	260.00	259.50	258.60 257.50

Turnover: Raw 62 (2) lots of 50 tonnes. White 977 (774) Paris- White (FFr per tonne): Mar 1401.74 May 1429.26

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Jan	19.20	19.27	19.41 19.15
Feb	19.18	19.26	19.40 19.15
Mar	19.13	19.22	19.34 19.12
Apr	19.06		19.26 19.06
IPE Index	19.09	18.98	

Turnover 22633 (20633)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low
Dec	181.50	183.00	184.75 181.25
Jan	183.00	184.50	186.00 182.75
Feb	183.25	184.50	186.00 183.00
Mar	180.00	181.00	182.50 179.50
Apr	175.50	176.25	178.50 176.50
May	173.00	174.25	176.00 173.00
Jun	171.50	172.50	174.50 171.50
Jul	173.25	174.75	175.50 173.75
Aug	175.00	176.25	177.00 175.50

Turnover 17346 (10864) lots of 100 tonnes

JUTE

November/December c and f Dundee BTC $355, BWC $370, BTD $320, BWD $330; c and f Antwerp BTC $335, BWC $355, BTD $310, BWD $310.

COTTON

Liverpool- Spot and shipment sales for the week ended November 13 amounted to 409 tonnes against 160 tonnes in the previous week. Improved demand brought moderate purchases mainly in American and Russian descriptions. South American growths made some headway.

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Dec	722	726	727 721
Mar	744	756	746 744
May	766	771	769 761
Jul	778	787	786 780
Sep	793	803	800 793
Dec	813	824	825 815
Mar	835	846	845 840

Turnover: 5034 (5541) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for Nov 13 800.66 (780.26) 10 day average for Nov 17 778.86 (767.51)

COFFEE – London FOX $/tonne

	Close	Previous	High/Low
Nov	928	960	945 935
Jan	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]

Turnover:2392 (4338) lots of 5 tonnes. ICO indicator prices (US cents per pound) for Nov 16: Comp. daily 65.37 (66.36) 15 day average 59.47 (58.60)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Apr	65.7	65.0	67.0
May	69.5	70.0	69.5

Turnover 24 (203) lots of 20 tonnes.

SOYABEAL – London FOX £/tonne

	Close	Previous	High/Low
Dec	144.60	144.80	144.50

Turnover 60 (160) lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low
Nov	1258	1245	1258 1251
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
BFI	1207	1196	

Turnover 153 (166)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low
Nov	131.60	131.90	131.65
Jan	132.90	133.00	[illegible]
Mar	135.00	135.80	[illegible]
May	136.30	136.55	136.30
Barley	**Close**	**Previous**	**High/Low**
Jan	131.40	131.65	131.50 131.40
Mar	134.35	134.50	134.35 134.25
May	136.10		136.10 136.00

Turnover: Wheat 477 (201), Barley 138 (440). Turnover lots of 100 Tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Nov	115.8		115.8
Jan	103.2		103.0 102.5
May	105.5		105.9 105.5
Jun	105.0		104.5

Turnover 39 (2) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

Aluminium, 99.7% purity ($ per tonne): Cash 1161.5-2.5; 3 months 1178-8.5; Total daily turnover 28,471 lots

Copper, Grade A (£ per tonne): Total daily turnover 44,781 lots

Lead (£ per tonne): Total daily turnover 4,407 lots

Nickel ($ per tonne): Total daily turnover 9,653 lots

Tin ($ per tonne): Total daily turnover 1,599 lots

Zinc, Special High Grade ($ per tonne): Total daily turnover 14,606 lots

LME Closing US rate: SPOT: 1.5300

Further LME prices: [illegible]

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (troy oz) $ price / £ equivalent: Close 334.00-334.30; Opening 333.70-334.00; Morning fix 333.95 / 220.102; Afternoon fix 334.30 / 220.266; Day's high 334.50-334.80; Day's low 333.50-333.80

Loco Ldn Mean Gold Lending Rates (Vs US$): 1 month 6.51; 2 months 6.95; 3 months 1.59; 6 months [illegible]; 12 months 2.23

Silver fix p/troy oz. / US cts equiv: Spot 247.70 / 375.65; 3 months 252.00 / 379.00; 6 months 256.85 / 382.55; 12 months 265.80 / 390.10

GOLD COINS $ price / £ equivalent: Krugerrand 333.00-336.00 / 219.00-221.00; Maple leaf 344.00-346.25; New Sovereign 78.00-81.50 / 52.00-54.00

TRADED OPTIONS / **Crude oil** / **Brent Crude**: [illegible]

New York and **Chicago** tables (Gold, Platinum, Silver, Copper, Crude oil, Heating oil, Cocoa, Coffee "C", Sugar World "11", Cotton, Orange juice, Soyabeans, Soyabean oil, Soyabean meal, Maize, Wheat, Live cattle, Live hogs, Pork bellies, Indices): [illegible]

LONDON STOCK EXCHANGE

Steady close after an erratic session

By Terry Byland,
UK Stock Market Editor

FRESH reminders of the recessionary pressures on the UK economy combined with tremors in the Hong Kong stock market to keep equities depressed in London yesterday. Losses in share prices were minimal, however, and any stock on offer was readily taken up.

The London market was unsettled by the fall of around 3 per cent in Hong Kong equities following disturbing comments by a visiting Chinese vice-premier, and by equity market setbacks both in Tokyo and New York. However, UK equities rallied from an early fall of 12 points on the FT-SE scale, helped by steadiness in the pound and government bonds and by a more favourable trend at the EC talks ahead of the next round of GATT negotiations.

Equities moved upwards at mid-session to show a gain of 7.1, putting the Footsie just above 2,686 for its best reading of the day, before turning to face a batch of statistics on the domestic economy. A brief improvement in stock index futures helped push the blue chips ahead.

However, support faded later. By the close, the FT-SE Index had slipped back to 2,679, for a net loss of 0.4 on the day; support for the second line stocks was disclosed by a 2.3 gain in the FT-SE Mid 250 Index. Traders saw London's performance as "highly creditable" against the nervous background of other global markets.

Seaq volume improved to 480.4m shares from the 434.2m of the previous day but remained short of the average daily totals of the past nine weeks. Monday's retail business was worth only £717, barely two thirds of the daily business levels recorded since mid-September.

The latest survey of distributive trades by the Confederation of British Industry (CBI), published in yesterday morning's UK press, indicated that high street sales had failed to sustain the momentum seen in September, immediately following the pound's exit from the European exchange rate network. But stores shares edged higher, focusing on the implications of last week's further cut in base rates and the hope of a further reduction in the new year. The CBI report provides a curtain raiser for the official retail sales figures for October, due today.

Neither the unemployment numbers for the October quarter nor the £1.78bn Public Sector Borrowing Requirement (PSBR) for last month gave much support for the equity market, although both were regarded as little more than confirmation of known trends. Nervousness over the outlook for the PSBR next year continued to hover in the background.

The mixed trend in price movements in leading stocks indicated that the institutions had been shuffling their portfolios, trimming some holdings and increasing others, rather than making significant changes in long term investment commitments. Successful fund managers have seen portfolios perform strongly during October.

Some strategists believe that this will prove to be the theme of the stock market until after Christmas, when equity investors will begin to look for the next cut in UK base rates. However, James Capel and Nomura Research are two leading houses known to be still taking a bullish view of the near term outlook.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	2	470	
ASDA Group	11,000	40½	
Abbey National	4,000	340	-4
Albert Fisher	700	48	+1½
Allied-Lyons	443	529	+3
Amstrad	[illegible]	[illegible]	
Anglian Water	[illegible]	482	+6
Argos	[illegible]	[illegible]	-1
Argyll Group	3,200	370	+6
Arjo Wiggins	1,600	148	+3
Ass. Brit. Foods	270	435	+7
Ass. Brit. Ports	[illegible]	314	-1
BAA	721	730	-1
BAT Inds.	[illegible]	[illegible]	-6
BET	1,600	112	
BICC	701	[illegible]	-1
[illegible]	1,400	700	+22
BP	6,600	227½	-2
BPB Inds.	5,000	177	+7
BT	4,300	395½	+2¼
BT New	5,000	291½	+2¼
BTR	1,900	484	+3
Bank of Scotland	[illegible]	114	-3
Barclays	2,900	348	-1
Bass	732	828	-3
Berisford Int.	133	15	
Blue Circle	1,700	171	+3
Booker	485	347	+1
Boots	1,800	484	+6
Bowater	748	437	+3
Brit. Aerospace	1,800	133	-4
British Airways	19,000	248	-23
British Gas	4,100	281	+1½
British Land	475	185	+1
British Steel	10,000	47½	+1
Bunzl	604	105	+6
Burmah Castrol	612	660	-5
Burton	10,000	60	+4
Cable & Wire.	2,600	635	-9
Cadbury Schweppes	1,700	405	-7
Calor Group	917	223	-1
Carlton Comms.	634	715	+6
Coats Viyella	1,300	210	+1
Comm. Union	80	564	
Cookson	128	182	-2
Courtaulds	3,200	470	-14
Dalgety	637	476	+8
De La Rue	340	830	+4
Dixons	750	208	+1
Eastern Elect.	400	404	+4
East Midland Elect.	[illegible]	404	
Eng China Clays	39	400	
Enterprise Oil	261	404	-3
Eurotunnel Units	38	348	+2
FKI	[illegible]	[illegible]	+2
Fisons	4,600	[illegible]	[illegible]
Forte	2,700	[illegible]	[illegible]
Gen. Accident	664	[illegible]	[illegible]
General Elect.	1,700	[illegible]	[illegible]
Glaxo	1,100	[illegible]	[illegible]
Glynwed Int.	2	[illegible]	[illegible]
Granada	1,300	[illegible]	[illegible]
Grand Met.	3,000	[illegible]	[illegible]
GUS A	220	[illegible]	[illegible]
GRE	1,000	[illegible]	[illegible]
GKN	402	[illegible]	[illegible]
Guinness	1,000	[illegible]	[illegible]
HSBC (75p shs)	3,000	[illegible]	[illegible]
Hammerson 'A'	428	[illegible]	[illegible]
Hanson	4,200	[illegible]	[illegible]
Hanson Warrants	205	[illegible]	[illegible]
Harrisons Crosfield	187	[illegible]	[illegible]
Hillsdown	2,500	[illegible]	[illegible]
IMI	696	[illegible]	[illegible]
ICI	772	[illegible]	[illegible]
Inchcape	317	[illegible]	[illegible]
Kingfisher	1,400	[illegible]	[illegible]
Kwik Save	397	[illegible]	[illegible]
Ladbroke	2,300	[illegible]	[illegible]
Land Securities	696	[illegible]	[illegible]
Laporte	73	[illegible]	[illegible]
Legal & General	388	[illegible]	[illegible]
Lloyds Abbey	180	[illegible]	[illegible]
Lloyds Bank	1,000	[illegible]	[illegible]
LASMO	847	[illegible]	[illegible]
London Elect.	128	[illegible]	[illegible]
Lonrho	327	72	
Lucas	1,700	113	-5
MB Caradon	702	270	+5
MEPC	166	335	
Manweb	104	[illegible]	
Marks & Spencer	2,500	337	
Midlands Elect.	225	[illegible]	-6
NFC	247	[illegible]	+1
NatWest Bank	3,400	[illegible]	-2
National Power	3,100	[illegible]	+2
Next	3,500	[illegible]	+2
North West Water	338	[illegible]	+3
Shell Transport	1,500	541	-2
Siebe	545	388	+2
Slough Ests.	388	141	
Smith (W.H.) A	194	458	-2
Smith & Nephew	1,600	158	+½
SmKl Beecham	1,400	589	+2
SmKl Beecham Uts.	1,600	492	+3
Smiths Inds.	214	315	+3
Southern Elect.	383	437	
South Wales Elect.	97	535	+1
South West Water	[illegible]	595	+3
South West. Elect.	[illegible]	[illegible]	+3

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Account Dealing Dates

First Dealings:		
Nov 2	Nov 16	Nov 30
Option Declarations:		
Nov 12	Nov 26	Dec 10
Last Dealings:		
Nov 13	Nov 27	Dec 11
Account Day:		
Nov 23	Dec 7	Dec 21

*New time dealings may take place from 8.30am two business days earlier.

Forecasts for BA slashed

British Airways (BA) fell sharply yesterday after the company announced disappointing second-quarter profits and analysts slashed their forecasts for the full year. The shares were the most heavily traded in London yesterday and tumbled 23 to 248p with 19m traded.

The airline announced a profit of £227m in the half-year to September 30, up from £185m the previous year but below the analysts' forecast range. The lacklustre deadline figure was compounded by a veiled profits warning as BA said prospects for the second half of the financial year remain uncertain: even though it is carrying more passengers and cargo than a year ago, because stiff competition has maintained pressure on margins.

The market's consensus estimate for the full year came down to £260m from above £300m with broker S.G. Warburg raining back to around the new level. BZW reduced by 26m to £265m arguing that it "sees sentiment remaining against the company until February or March". The investment bank also cut by £100m to £350m for the following year. However Lehman Brothers' European airlines analyst Mr Christopher Will argues that the real story is in earnings per share rather than profits. He says eps will benefit as the tax rate will come down and the share price had already factored in the low profits. He has turned strong buyer of the stock.

Property placing

A large placing took the shine off trading figures reported in line with expectations from Great Portland, as building group Costain sold its 8 per cent stake at a considerable loss. Gt Portland shares retreated 7 to 129p with huge turnover of 17m shares, boosted by the Costain trade. The placing was carried out by Cazenove who bought the stake at 120p from Costain, which had paid 185p a share a year ago, and placed it with institutions at 121½p.

Prior to this development, Gt Portland's figures had caused no great surprises, the maintained dividend helping the shares to hold steady, before tumbling as the Costain placing went through the market at around 10am. In common with most property groups, Gt Portland warned that its final dividend might be in doubt if the market deteriorates further, or if trading suffers further.

Mr Graham Stanley at County NatWest commented: "The dividend yield is offering the shares short-term support, but questions have to be asked if it is prudent to use all the group's cash flow to fund the final dividend when so many of its properties are in need of redevelopment." Meanwhile, Costain shares edged 1¼ to 29¼p.

C & W pressured

The steep decline in the Hong Kong market and a host of nervousness ahead of tomorrow's interim figures produced a flurry of selling pressure in Cable & Wireless shares (C & W) The group derives well over 50 per cent of its profits from Hong Kong.

At their worst yesterday the shares touched 633p before stabilising to end the session a net 9 off at 635p. Turnover was an unremarkable 2.6m shares.

Hong Kong's Hang Seng index dropped over 200 points yesterday in response to remarks made by the Chinese deputy prime minister regarding the transfer of power in Hong Kong to the Chinese in 1997.

Dealers said the fall in the shares was a knee-jerk reaction to the strains between the UK Government and the Chinese but also reflected profit-taking after the recent strong performance of C & W shares. Between early-October and mid-November C & W shares rose over 20 per cent while the Footsie-100 rose some 10 per cent, mostly reflecting the steep rise in the dollar and news of the sale of a 20 per cent stake in Mercury, C & W's telecoms division, to Bell Canada, the Canadian telecoms group for £480m.

Analysts expect only a marginal rise in C & W's interim profits. The range of estimates is from £350m to £365m. The interim is forecast to rise by around 10 per cent to 4.7p.

Vodafone came in for some good support amid switching from Cable & Wireless, with the former's the shares moving up 9 more to 379p ahead of interim figures pencilled in for next Tuesday.

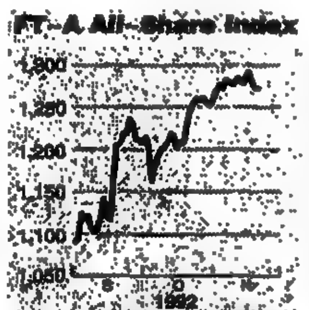
Analysts expect Vodafone to turn in profits up around 14 per cent at £160m with a similar increase in the dividend to around 3.3p. The market has given a good reception to last month's launch of Vodafone's new "Lowcall" service which pre-empted Cellnet's "Lifetime" launch of a similar service.

BT also made progress, similarly sustained by switching activity, and closed 2¼ firmer at 395½p on 4.3m traded. BT partly-paid rose the same amount to 291½p on 5m.

News reports that a sub-contractor in the £20bn Al-Yamamah defence contract between the UK and Saudi Arabia might want to by-pass lead contractor British Aerospace hit BAe shares. Shipbuilder Vosper Thorneycroft had apparently said it would like to deal directly with Saudi Arabia. However the company was unhappy with reports that it wanted to operate alone and stressed its continued commitment to the contract.

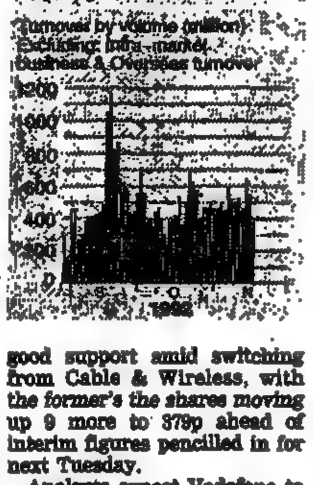
BAe fell 4 to 133p while Vosper lifted 9 to 401p principally as a result of announced raised interim profits and an improved dividend.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



Speculation that Rolls-Royce might have been selling equipment for military use to Iraq plus a profits warning from a US competitor and analysts' forecast downgrades hit the shares. However, the company said that as regards the supply of equipment: "We have to and do accept all the government guidelines" and added that it had a different range of engines from United Technologies. Rolls slipped 7¼ to 101¾p on heavy turnover of 8.5m.

A buy recommendation issued by BZW and a well-received presentation by the company to what was described as a sparsely-attended gathering of investment analysts provided the impetus for a strong performance by Standard Chartered.

The shares were the pick of a generally sluggish banking sector, racing up 21 to a new high for the year of 555p; turnover was a hefty 1.9m shares.

The stock is in the running to be included in the Footsie-100 list when the FT-SE steering committee meets to consider changes in constituents.

Bank sector specialists said Standard had outlined its strategy and insisted it would not float off its Hong Kong operation, a move which had been mooted.

Burmah Castrol continued to drift easier as worries about the extent of the slowdown in German economic activity triggered renewed selling pressure. Burmah derives around 40 per cent of its earnings from continental Europe. Brokers have been reducing estimates for Burmah for the past couple of weeks. Burmah shares closed a further 5 off at 660p.

Dealers noted a resurgence of activity in Calor with income funds selling the stock in special ex-dividend form around the 212p mark. At the close the shares were marginally off at 223p with around 1m shares traded.

Paris theme park operator Euro Disney fell back for the second day running as investors continued to bale out ahead of tomorrow's interim figures. Steep losses are feared and Paribas yesterday reiterated its strong sell stance. The shares tumbled 35 to 963p.

Forte continued its good run as Prudential increased its stake from 2.9 to 3.6 per cent, the shares running on 6 to 175p in turnover of 2.7m. Ladbroke added 7 to 175p in sympathy.

Exhibitions organiser Blenheim tumbled after the company's joint broker Credit Laing Lyonnais crossed 2.6m shares at 420p. The shares were traded between one institution wanting to offload its entire 3 per cent stake and institutions happy to pick up the stock. The shares picked up from the low to close 25 off at 438p.

Courtaulds tumbled 14 to 470p on nervousness ahead of half-year results to be announced today. Estimates range from £87m to £92m against £96.4m a year ago.

MARKET REPORTERS:
Steve Thompson,
Christopher Price,
Peter John.

■ Other market statistics, Page 26

NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (88). [illegible] ... Simon, FOOD RETAILING (1) Geest, INV TRUSTS (8) Aberforth Split Inc, Archimedes Inc, Exmoor Dual Zero Pf, Japan OTC Wts, Japanese Wt Fd, Do Wts, New Throgmorton Cap, Throgmorton Dual Inc, MEDIA (6) Anglia 9¾pc Pf, Chiltern Radio, HTV, Lopex, Yorkshire Tyne-Tees, MTL & MTL FORMING (1) Utd Inds, MISC (1) Ass Brit Consultants, MOTORS (1) DAF, OIL & GAS (2) [illegible], Lasmo Ops, OTHER FINCL (1) Ballie, PACKG, PAPER & PRINTG (2) Ind Comm & Data, Stat-Plus, PROP (1) Derwent Valley, STORES (2) Beattie A, Cantors, MINES (4) Gold Fields, Hartebeest, Pasminco, Renison.

FINANCIAL TIMES EQUITY INDICES

	Nov 17	Nov 16	Nov 13	Nov 12	Nov 11	Year ago	High	Low
Ordinary share	1996.4	2004.6	2021.8	2027.3	[illegible]	[illegible]	[illegible]	[illegible]
Ord. div. yield	4.62	4.61	4.57	4.54	[illegible]	[illegible]	[illegible]	[illegible]
Earning yld % full	6.52	6.45	6.45	6.38	[illegible]	[illegible]	[illegible]	[illegible]
P/E ratio net	19.53	19.79	19.83	19.96	[illegible]	[illegible]	[illegible]	[illegible]
P/E ratio nil	18.05	18.27	18.32	18.46	[illegible]	[illegible]	[illegible]	[illegible]
Gold Mines	68.9	68.8	67.1	67.5	[illegible]	[illegible]	[illegible]	[illegible]

*for 1992 Ordinary share Index since compilation: high 2148.7 [illegible] - low [illegible]
Gold Mines Index since compilation high: 734.7 15/2/83 - low [illegible]
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
1993.6	1998.4	2001.6	2001.3	2001.0	2001.3	2002.3	[illegible]	[illegible]	[illegible]	[illegible]

Volume	Nov 17	Nov 16	Nov 13	Nov 12	Nov 11	Year ago
SEAQ Bargains	23,443	25,017	34,694	31,279	28,474	25,621
Equity Turnover(£m)†	-	717.4	1163.0	1344.2	1107.6	880.66
Equity Bargains†	-	27,888	38,613	35,173	32,340	25,280
Shares traded (mil)†	-	398.5	546.0	646.7	485.0	424.4

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

EQUITY FUTURES AND OPTIONS TRADING

A DEFIANTLY firm opening on the futures market petered out in a dull afternoon session with the December contract again returning to trade at a discount to its fair value, writes Christopher Price.

The dull opening expected by equity traders, on the back of poor overnight performances from Wall Street and Hong Kong, plus a negative Confederation of British Industry (CBI) derivatives trade survey, failed to materialise as bear closing was seen squeezing the December Footsie contract firmer in a busy morning session. December, which had hit its low of the day of 2,676 within minutes of opening, reached its high of 2,700 by lunchtime. Firmer short sterling and government bonds helped.

However, the afternoon session saw a dearth of buyers and an indifferent Wall Street sent December drifting away until its close. It finished at 2,684, the same close as the previous session but at a much lower volume of 6,165 contracts. The contract traded at around or slightly below fair value for most of the session and at the close was at a discount of some five points to its fair value level of around nine.

Traded options were subdued. Rolls-Royce was the top stock, trading 1,821 contracts which included one trade of 1,000 of the December calls at 7.5p. British Airways found buyers after its results with 1,272 traded. Total volume was 19,765.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2679.2 -0.4	2598.0 +2.3	1272.58 -0.04

	Nov 17	Nov 16	Nov 13	Nov 12	Nov 11	Year ago	1992 High	1992 Low	Since compilation High	Since compilation Low
FT-SE 100	2679.2	2679.6	2697.5	2726.4	2698.8	2472.6	2737.8	2281.0	2737.8 11/5/92	986.9 23/7/84
FT-SE Mid 250	2598.0	2595.7	2609.9	2616.5	2590.5	2445.8	2825.0	2157.8	2825.0 20/5/92	1379.4 21/1/86
FT-SE-A 350	1297.3	1297.2	1305.4	1317.4	1303.3	1190.0	1342.7	1103.1	1342.7 11/5/92	664.5 14/1/86

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2668.7	2674.2	2681.8	2684.4	2685.5	2685.5	2686.0	2678.9	2679.3	2686.7	2667.5
FT-SE Mid 250	2588.0	2589.4	2592.5	2595.8	2597.4	2597.8	2597.8	2598.4	2598.1	2598.1	2586.7
FT-SE-A 350	1292.2	1294.5	1297.7	1299.0	1299.6	1299.6	1299.9	1298.9	1297.3	1300.1	1291.6

Gross dividend yield (ACT at 25%) FT-SE 100 4.50%

FT-Actuaries All-Share

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday November 17 1992 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1992 to date	Mon Nov 16 Index No.	Fri Nov 13 Index No.	Thu Nov 12 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (174)	771.48	-0.3	7.32	5.36	17.82	29.69	774.06	781.92	786.43	768.04
2 Building Materials (23)	768.87	-	6.73	7.11	21.14	35.83	769.33	790.54	804.99	938.07
3 Contracting, Construction (26)	672.19	-3.0	4.12	7.37	45.76	37.38	678.82	686.22	702.31	1012.49
4 Electricals (9)	2142.36	-0.1	7.84	7.02	16.67	108.10	2143.77	2172.37	2110.52	2381.85
5 Electronics (27)	2177.00	-0.1	7.03	3.94	18.10	50.14	2168.87	2181.33	2143.50	1680.41
6 Engineering-Aerospace (6)	255.13	-2.8	13.87	9.20	9.17	15.92	262.36	266.04	271.28	335.05
7 Engineering-General (43)	443.25	-0.1	9.00	5.31	14.20	16.58	443.91	445.85	442.69	464.60
8 Metals and Metal Forming (7)	270.93	+0.8	6.31	4.74	23.08	8.52	268.69	275.53	274.02	331.51
9 Motors (15)	319.68	-1.4	6.37	7.36	32.91	17.59	324.28	327.25	326.77	312.45
10 Other Industrials (18)	1776.84	-0.2	7.02	4.71	17.22	61.23	1780.55	1788.24	1798.71	1517.70
21 CONSUMER GROUP (192)	1450.03	-0.4	7.07	3.52	17.55	40.00	1463.71	1453.14	1469.70	1345.55
22 Brewers and Distillers (25)	1940.68	+0.4	8.56	3.80	14.09	41.53	1933.76	1942.75	1962.12	1877.59
25 Food Manufacturing (19)	1252.40	-	8.61	4.25	14.47	36.05	1252.09	1271.49	1282.29	1171.81
26 Food Retailing (18)	2886.35	+0.3	8.92	3.23	14.56	62.29	2849.66	2877.23	2911.10	2970.41
27 Health and Household (26)	4307.10	-0.2	5.16	2.63	22.48	87.51	4313.90	4285.38	4342.67	4062.45
29 Hotels and Leisure (18)	1147.51	-1.3	6.85	5.94	19.22	46.03	1153.12	1141.44	1149.10	1307.88
30 Media (27)	1645.51	+0.5	6.06	3.21	20.59	38.19	1638.13	1647.80	1653.23	1418.48
31 Packaging, Paper & Printing (17)	729.38	+0.9	7.16	4.46	17.31	24.01	722.86	734.21	744.70	737.64
34 Stores (33)	1065.02	+0.6	6.86	3.40	19.31	26.40	1058.71	1077.11	1084.69	1081.93
35 Textiles (9)	700.27	+0.4	6.78	4.38	18.57	23.09	697.74	699.30	703.14	624.92
40 OTHER GROUPS (116)	1366.77	-	8.97	4.99	13.88	41.46	1366.99	1371.52	1378.45	1195.45
41 Business Services (10)	1421.39	+0.5	6.24	3.58	19.64	30.78	1414.74	1425.10	1453.34	1346.28
42 Chemicals (22)	1323.28	+0.2	6.95	5.53	18.21	48.71	1321.18	1327.27	1339.34	1387.24
43 Conglomerates (10)	1331.08	-0.2	8.66	8.26	14.78	40.93	1333.40	1334.07	1351.03	1324.82
44 Transport (13)	2466.02	-1.8	9.22	4.81	13.00	83.03	2511.21	2509.19	2572.05	2286.19
45 Electricity (16)	1532.09	+0.3	13.67	4.79	9.41	55.01	1528.08	1525.50	1515.76	1163.47
46 Telephone Networks (4)	1612.94	+0.4	8.26	4.20	15.70	46.15	1606.26	1601.30	1600.93	1421.64
47 Water (11)	2853.02	+0.8	13.71	5.29	8.07	94.82	2830.12	2815.19	3323.25	2260.14
48 Miscellaneous (22)	2320.94	-0.6	6.07	4.35	20.37	56.19	2335.36	2353.93	2369.67	1757.93
49 INDUSTRIAL GROUP (482)	1339.66	+0.1	7.75	4.36	16.16	38.41	1337.93	1345.50	1355.78	1239.80
51 Oil & Gas (18)	2139.60	-0.3	6.18	6.06	21.19	102.73	2146.09	2149.89	2174.10	2293.93
59 500 SHARE INDEX (500)	1413.92	+0.1	7.58	4.53	16.57	43.43	1412.73	1420.15	1431.54	1330.92
61 FINANCIAL GROUP (82)	829.30	-0.5	-	5.30	-	31.47	833.28	842.13	854.04	745.38
62 Banks (9)	1142.11	-0.9	4.53	4.87	33.16	40.52	1152.63	1165.37	1190.31	872.72
65 Insurance (Life) (6)	1632.94	+0.6	-	5.57	-	68.18	1626.80	1661.44	1686.93	1451.16
66 Insurance (Composite) (7)	595.71	-0.2	-	5.06	-	22.58	596.91	600.18	604.02	537.62
67 Insurance (Brokers) (10)	732.95	-0.1	9.43	7.67	14.03	42.23	724.00	743.62	745.87	1030.11
68 Merchant Banks (6)	458.73	-0.1	-	4.98	-	16.75	459.36	463.40	465.60	485.36
69 Property (30)	617.23	-0.1	9.10	6.83	14.43	24.94	618.13	618.07	613.58	856.77
70 Other Financial (21)	264.71	-0.7	7.50	6.30	17.51	10.24	265.37	267.23	266.95	243.33
71 Investment Trusts (70)	1236.08	-0.3	-	3.64	-	30.44	1239.71	1252.25	1264.46	1173.05
99 ALL-SHARE INDEX (652)	1272.58	-	-	4.61	-	40.06	1272.62	1280.40	1291.80	1190.42

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	15.10	Close	Previous close	change
Construction	1328.6	1329.3	1334.1	1334.1	1333.0	1333.2	1333.2	1330.9	1330.6	1329.4	1341.3	-11.9
Health&H	1302.8	1307.3	1307.2	1308.5	1309.9	1309.5	1310.3	1308.0	1304.1	1303.7	1305.5	-1.8
Water	1349.9	1350.8	1353.8	1359.5	1360.2	1360.2	1363.0	1363.0	1365.7	1366.0	1353.6	+12.4
Banks	1383.7	1389.2	1390.5	1400.8	1398.8	1398.2	1393.7	1388.9	1387.5	1387.8	1400.5	-12.7

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address. The FT-SE 100, the FT-SE Mid 250 and the FT-SE Actuaries 350 indices are compiled by the London Stock Exchange and the FT-Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules.

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS - Cont.

[illegible]

BRITISH FUNDS - Cont.

[illegible]

OTHER FIXED INTEREST

[illegible]

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1992 high	low	Mkt Cap £m	Yld Gr's
Abbott Labs	h	19⅞xd	+¼	19⅞	14⅝	16,764	1.9
♥Allegheny & W		446p	+6	454p	226p	231.8	4.2
Amdahl		520p	+11	1155p	455p	593.8	1.2
Amer Cyanamid		36⅛	—	37⅞	28⅜	3,259	2.9
Amer Express		14¼xd	+⅛	14¾	10¾	8,784	4.5
Amer T & T		30⅞xd	+[illegible]	30¾	20⅛	48,894	2.7
Ameritech		42⅞	+⅛	43⅛	32½	18,550	5.2
BankAmerica		28⅛xd	-⅛	28½	19[illegible]	9,730	2.9
Bankers NY		44xd	+½	44	28⅞	3,531	4.0
Bell Atlantic		29⅞	+¼	31⅛	23⅛	12,867	5.5
BellSouth		31½	+⅛	34⅛	25	15,399	5.5
♥Bethlehem Steel		[illegible]xd	-[illegible]	9⅝	5¼	898.5	—
Bowater		1412pxd	-15	1579p	905p	510.4	5.4
CPC	h	32[illegible]xd	-⅛	33	22⅞	4,913	2.3
♥Cadiz Land Inc		129p	—	342p	108p	—	—
California Engy		999p	+71	999p	591p	181.9	—
Chase Manhattan		17⅛xd	+[illegible]	17⅛	9¼	2,557	4.4
Chrysler		18½xd	+⅜	18½	8½	5,408	2.0
Citicorp		11[illegible]xd	-⅛	12⅞	5⅜	4,290	—
Colgate-Palm		38[illegible]xd	-[illegible]	39⅛	25¼	6,207	2.0
Cont'l Bank		1259p	+1	1260p	499p	1,280	3.0
Dana		27⅞xd	+⅛	28[illegible]	14[illegible]	1,278	3.8
Data General		693p	+21	1004p	384p	181.2	—
♥Decora Inds		148p	—	148p	66p	—	—
Dun & Brad		37¼	-⅛	39⅞	27⅝	6,726	3.8
Eaton		48½	—	48¼	32½	1,605	3.0
Echlin		13½xd	+⅛	13½	7⅜	770.4	3.3
FPL		23⅝xd	+⅛	23¾	17[illegible]	4,267	6.5
Fluor		28[illegible]xd	+[illegible]	29⅝	19¼	2,347	0.9
Ford Motor		26⅛xd	+[illegible]	26⅜	15	12,730	2.4
Gen Elect		51½xd	-⅛	51¼	36¾	43,000	2.9
♥General Host		594p	+20	609p	360p	—	3.8
Gillette		39⅝xd	-⅛	40	23[illegible]	6,082	1.1
Hasbro		22½	—	22½	12⅞	1,960	0.6
Honeywell		42⅞	+½	43	32	2,920	2.6
Houston Inds		29⅛	+½	29½	22	3,772	6.5
IBM		42[illegible]xd	+⅛	54½	41[illegible]	24,500	7.1
Ingersoll-Rand		19⅝xd	-⅛	21	12[illegible]	2,025	2.2
Lockheed		31	—	31	22⅜	1,982	4.3
Lowe's	h	1346p	+9	1370p	815¼p	902.8	1.3
Merrill Lynch		38⅛xd	-⅛	39[illegible]	24⅞	4,045	1.9
Morgan (JP)		41⅛xd	+⅛	42½	36[illegible]	7,875	3.3

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

	Notes	Price	+ or -	1992 high	low	Mkt Cap £m	Yld Gr's
Spring Ram	†	100	-1	181	100	290.7	6.4
Stamin		8½	—	16	6	21.8	6.2
Tarmac		91	+3	181	51	863.8	8.1
♦Tilon	†	132	—	178	85	14.8	3.3
Travis Perkins		166	-2	228	105	188.8	6.4
♦Tudor	‡	38	—	38	30	3.20	‡
Unigroup		11	—	36	8½	3.22	—
♦Waterhouse		28	—	48	23	0.85	‡
Wickes		77	-2	[illegible]	50	223.1	—
Wolseley	♣	448	+4	478	287	1,050	3.8

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

Authorised by the Inland Revenue

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1992 High	1992 low	Yld Gr's	NAV	Dis or Pm(-)
Scottish Inv	♣†	176½	−1	183	147	3.3	211.8	16.6
Warrants		30	—	30	21	—	—	—
Scot Mortgage	♣†	169½	+½	174	135	3.1	199.5	15.1
Scot National Inc	♣	75½xd	−½	107	65¾	15.8	—	—
Cap		17	—	42	12½	—	26.7	36.8
Stepped Pf		153¾	−½	155½	128	5.3	—	—
Zero Div Pf		201½	—	202	166½	—	—	—
Warrants		5	—	9	3	—	—	—
Scot Value	ta	65	—	66	48	3.8	67.6	2.4
Sec Alliance	♣	1313	—	1388	1065	2.7	1505.5	12.8
Second Market	s	254	−1	266	222	0.6	301.6	15.8
Sec Tst Scot	♣	71½	—	75½	61	6.1	78.6	7.5
Select Assets		104	—	104½	78½	1.1	155.9	33.3
Eq Ind Serl		128	—	128	106	4.7	—	—
Eq Ind Serl		128	—	128	108	4.7	—	—
SHIRESCOT		98	—	99	90	—	101.2	2.2
Shires	♣	218	+1	249	188	11.3	219.4	0.5
11pc Cv Ln '03/04		£119	—	£119½	£95½	9.5	—	—
Slam Select		101	—	103	68	0.3	137.4	26.8
Warrants		16	—	21	10	—	—	—
Smaller Cos		66	—	65	65	6.1	78.2	16.3
Warrants		13	—	20	10	—	—	—
Somerset Tst		114	—	149	55	—	87.5	−30.2
Sphere Inc	R	13	—	20	9½	31.8	23.3	46.2
Zero Div Pf		75¾	—	77¼	63¾	—	—	—
Summit		30	—	55	30	4.8	93.3	62.5
TR City of Lon		115½	−½	127½	97½	5.5	117.0	1.1
TR Euro Growth	♣	70	—	98	70	2.4	99.2	23.8
Pig Sub		37	—	54	33	8.8	—	—
TR Far East Inc	♣	110xd	−1	115	78	5.5	122.4	10.2
Warrants		18½	—	22	12	—	—	—
TR High Inc		107	−1	118	91	7.5	104.5	−1.9
Sub	g	21	—	35	21	9.5	—	—

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

	Notes	Price	+ or -	1992 High	1992 low	Mkt Cap£m	Yld Gr's	P/E
Utd News		482	−2	484	323	901.7	6.2	15.5
WTR		30xd	—	66	38	2.78	11.9	♦
WPP		30	—	719	31	80.4	—	—
Warrants		6	—	8½	1½	6.28	—	—
Watmoughs	†	467	—	486	391	153.4	3.0	20.3
Yorkshire Tyne-T.		115	−6	191½	115	57.4	13.9	4.1
Warrants		9	—	16	9	0.80	—	—

MERCHANT BANKS

	Notes	Price	+ or -	1992 High	1992 low	Mkt Cap£m	Yld Gr's	P/E
Ansbacher (H)		31	—	34	25	67.9	—	♦
Bangs 9pc Cm 2nd Pf		95½	−½	101	83½	12.1	11.1	—
9¾pc Non-Cm Pf		118¾	+½	128	103¼	48.7	11.1	—
Close Bros		221	—	287	205	84.9	5.7	9.6
Hambros	♣	236xd	−2	292	202	309.4	8.0	10.2
7½pc Cv Pf		110½	—	118	91½	105.8	9.0	—
Joseph (L)		308	—	333	308	78.2	6.9	—
Kleinwort Benson		286	−1	328	212	373.8	7.6	25.0
Rea Bros	♣	36	—	37	25	13.7	1.9	—
Schroders	♣†	1319	+2	1385	1043	667.6	1.8	15.2
N/V	†	1105	—	1158	883	145.1	2.2	12.9
Singer & Fried	♣	43	—	56	34	82.7	7.8	8.4
Warburg (SG)	♣	483xd	—	695	403	1,018	5.0	14.3
8pc Cv Pf		188	—	204	137	71.5	4.8	—
Wintrust		190	—	253	180	16.1	8.5	7.3

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

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FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Grs
AIB Grofund American	5	147.2	148.8d	156.6	-0.10	0.09
AIB Grofund Equity	5	190.3	193.1	204.4	-0.70	1.87
AIB Grofund Euro	5	143.2	145.3	153.0	-0.70	0.71
AIB Grofund Ext Inc	5	96.68	97.28	100.3	+0.30	0.08
AIB Grofund Gilt	3	74.92	74.94	77.26	-0.42	5.90
AIB Grofund Japan	5	117.9	119.2d	125.5	-0.40	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corporation St, Coventry 0203 553231

Britannia Life Unit Managers Ltd (1200)F
190 West George St, Glasgow G2 2PA 041-332 3132

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412282

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

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FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Sharp (Albert E.) & Co (1800)F						
Admin: [illegible]						
Enquiries: 0277 227300 Dealing: 0277 2[illegible]1010						
Intl Bond & Conv	5	116.80	117.10	125.30	-0.38	6.16
Pound Pension ◆	3½	137.5	142.0	146.9	....	-
Smaller Cos	5	50.68	52.46	55.22	+0.21	2.55
UK General	5	109.40	111.10	116.90	-0.38	2.81
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard, London Bridge SE1 071 407 5966						
Income	5	353.87	353.87	375.10	-0.78	3.50
Global Inc	5	50.24	50.24	53.25	-0.21	4.57
Brit Leaders	5	298.91	298.91	316.84	-1.79	3.22
Intl Leaders	5	163.26	163.26	173.06	-1.71	1.90
[illegible]	3½	48.09	48.97	50.88	-0.23	4.21
[illegible]	3½	48.27	49.47	51.40	+0.52	4.16
Singer & Friedlander UT Mgmt Ltd (1000)F						
PO Box 224, Beckenham, BR3 4TF 081-663 3003						
European Trust	6	46.33	46.47	49.43	-0.09	1.66
Far Eastern Tst	6	52.36	52.81	56.18	-0.16	0.87
Smaller Cos	5	110.7	115.4	122.7	-0.6	3.04
Smith & Williamson Unit Tst Mgrs (1600)F						
1 Riding House St, London W1A 3AS 071-637 5377						
S & W American ◆	5	261.1	261.6	276.8	+3.3	0.94
S & W Capital	5	106.0	106.0	113.6	....	1.90
S & W Cash ◆	0	101.14	101.14	101.14	+0.05	7.75
S & W European	5	104.9	105.1	111.2	....	1.30
S & W Far Eastern	5	109.3	110.2	116.6	+0.3	0.15
S & W Growth	5	113.2	114.4	121.0	-0.6	1.46
S & W Income	5	98.98	100.4	106.2	-0.3	5.56
S & W Magnum	5	112.4	112.4	120.6	+0.1	1.84
S & W Smlr Sets	5	246.5	252.3	266.9	+1.4	0.93
S & W Thoroughbred	5	129.9	129.9	139.3	+0.2	1.84
Societe Generale Touche Remnant (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing—12 Noon Historic						
American Gwth	5¼	73.55	73.95	78.66		0
Eur Sp Sits Acc	5¼	40.63	40.63	43.39	-0.20	0
Eur Sp Sits Inc	5¼	38.38	38.38	40.98	-0.19	0

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Whittingdale Unit Tst Mgmt Ltd (0830)F						
2 Honey Lane, London EC2V 8BT 071-600 0462						
Challenger	2¼	89.35	89.35	90.41	-0.09	0.00
Short Dtd Gilt	1¼	106.4	106.4	107.8	-0.4	1.93
U S Govmt Bond	1¼	[illegible]	[illegible]	[illegible]	[illegible]	0.00
Gilt Income	4	51.29	51.29	53.37	-0.24	8.68
Gilt Growth	4	63.33	63.33	65.92	-0.27	0.00
City Reserve	0	55.11	55.11	55.11	+0.01	8.8
Woolwich Unit Trust Managers Ltd (1700)H						
1 White Oak Square, Swanley BR8 7AG 0705 388046						
Stockmarket Fd F	5	58.83	59.10	62.87	-0.06	2.69

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Baillie Gifford & Co Ltd				
Int'l Expt Nov 4	642.3	666.1	-	1.88
Baring Investment Mngmt Ltd				
155 Bishopsgate, London EC2M 3XY				
071 214 1050 (general enquiries) 071 214 1004 (dealing)				
Charitable Funds				
UK Growth & Income	49.81	51.57	(z)	4.7
Income Plus	49.00	49.97	(z)	2.5
James Capel Fund Managers Ltd				
Managed Exempt	118.888	125.701	-0.302	4.29
Cent. Bd. of Fin. of Church of England				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Inv Fund Oct 31	544.70	548.30		5.40
Fxd Int Sec Oct 31	151.40	152.10		9.53
Deposit Fund See Money Market Trust Funds				
Charinco/Charishare (1000)F				
33 King William Street, EC4R 9AS 071-280 2800				

INSURANCES

Continued on next page

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MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)**

OFFSHORE INSURANCES

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)**

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)**

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FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or −	Yield Gross
TBI Global Funds Limited				
Intl Stlg Gwth	£20.46	21.55		—
Intl $US Gwth	$17.62	18.55		—
High Income Gilt	£26.34	27.30		—
International Equity	£20.52	21.61		—
International Bond	£22.41	23.65		—
Managed Currency	£27.71	28.00		—
Sterling Currency	£26.34	26.62		—
US$ Currency	$37.70	38.09		—
Irish £ Currency	I£15.06	15.22		—
R & H Fund Managers Ltd				
LFM Sterling Fd	£11.10	11.58		—
B.F. Offshore Inc Fd Ltd	£11.58	12.19		—
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£9.10	9.80		—
Nelson Mines W/W $S	£8.79	9.16		—

JERSEY (SIB RECOGNISED)

	Bid Price	Offer Price	+ or −	Yield Gross
Lloyds Bank Trust Co (CI) Mngrs				
Lloydstrust World Inc Port	£2.505	2.628		1.25
Dealing weekly on Thursday				
Management International (Jersey) Ltd				
Anchor Gilt Edge	£9.91	9.95	−0.02	9.45
Minerals, Oils Res. Shrs. Fd. Inc.				
Mores Nov 12	$13.10	13.37		2.99
Nat. Westminster Jersey Fd. Mgrs. Ltd				
Sterling Income	53.7	56.0		7.97
UK Equity Fd	209.6	223.0	−0.01	2.87
*Intl Bond Fd	100.8	104.0		7.09
*Sterling Mngd Asst Fd	340.2	369.0		5.00
*Sub. day every Thurs.				
Northgate Unit Tst. Mngr. (Jersey) Ltd				
Pacific Fund Nov 12	$35.22	37.45		—
The Portugal Fund Limited				
Lloyds Bank Trust Company (Channel Islands) Ltd				
NAV Nov 13		$4.52		—

	Initl Chrge	Canc. Price	Bid Price	Offer Price	+ or −	Yield Gr's
AIB Fund Managers (CI) Ltd						
PO Box 468 St Helier Jersey 0534 36633						
AIB Currency Funds Ltd						
Intl Managed Bond	5		16−20.8010	20.8086		—
Managed Capital Bd	5		16−20.9201	20.9432		—
AIB Guaranteed Currency Fund Limited						
Stlg Mngd Currency	5	£−	10.9054			—
Sterling Currency Fd	5	£−	10.4914			—
Ecu Currency	5	Ecu−	10.6974			—
US Dollar Mngd Curr	5	$−	21.4521			—
Barclays International Funds						
PO Box 152, St Helier, Jersey CI 0534 67888						

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Continuing gloom on Germany

The dollar again broke through the DM1.60 level against the D-Mark yesterday as the market continued to be swayed by Monday's report from five independent economic forecasters suggesting that there will be zero growth in the German economy in 1993, *writes James Blitz*.

If money market prices are anything to go by, there will be no easing in official German rates before the New Year. But the report from the "five wise men" who advise the German government has again raised the prospect that the Bundesbank will ease policy significantly next month to help boost the economy.

The dollar continued to rally, peaking at DM1.6070 in European trading and closing at DM1.5980, up nearly a pfennig on the day. In later American trading, it was trading at 1.5982.

The dollar's rise was partly capped by the Bundesbank's decision to keep its repurchase tender rate steady at 8.75 per cent, despite a net drain of funds in the German money market.

One London-based dealer also said that the Bundesbank and the Bank of England had subtly intervened in the market to cap the US currency's rise, but this could not be confirmed.

Mr Neil MacKinnon, chief economist at Citibank in London, believes there is every possibility that the dollar can correct lower, but views this as a technical rather than fundamental process.

He believes that there are still signs of weakness in the US economy and that today's September trade balance is likely to show a deficit of $8.7bn, because of a poor export performance.

"However," he says, "the Bundesbank will cut rates aggressively next year,and I do not rule out a 50 basis point cut in the Lombard rate in 1992, despite uncertainty surrounding the 1993 budget proposals."

Mr Brendan Brown, an economist at Mitsubishi Finance International, has a more cautious view of Bundesbank policy. His central case is that the western German economy will not go into severe recession and that the decline in German money market rates will be gradual. He sees the D-Mark gaining further ground within Europe in coming months as monetary easing in the UK and Italy outstrips that in the core countries.

Mitsubishi Finance's forecast for the dollar/D-Mark rate in the first half of 1993 is DM1.52; by contrast, Citibank sees dollar/D-Mark at DM1.75 in May of next year.

The D-Mark's intrinsic weakness was a boost for sterling which rose 1¼ pfennigs to close at DM2.4300. However, the pound was a good deal weaker against the strong dollar, falling ¾ of a cent to a low of $1.5125, but later closing at $1.52. Mr MacKinnon of Citibank believes that there is a strong correlation between the narrowing of US and UK short term rates and the decline in sterling/D-Mark rate.

£ IN NEW YORK

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

Iran	2230.00*	1455.00*
Korea(Sth)	1183.95 - 1203.05	780.30 - 786.50
Kuwait	0.45250 - 0.45350	0.29900 - 0.30000
Luxembourg	49.95 - 50.05	32.85 - 32.95
Malaysia	3.8210 - 3.8290	2.5250 - 2.5260
Mexico	4716.80 - 4719.80	3116.50 - 3118.50
N.Zealand	2.9240 - 2.9270	1.9320 - 1.9340
Saudi Ar	5.6245 - 5.7385	3.7495 - 3.7505
Singapore	2.4760 - 2.4830	1.6370 - 1.6380
S.Af (Cm)	4.5405 - 4.5525	3.0060 - 3.0080
S.Af (Fn)	7.1560 - 7.2075	4.7280 - 4.7620
Taiwan	38.35 - 38.45	25.35 - 25.45
U.A.E.	5.5075 - 5.6205	3.6715 - 3.6735

*Floating rate. Iran Official rate: £100.50 $65.95

EMS EUROPEAN CURRENCY UNIT RATES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

	£	$	DM	Yen	F Fr.	S Fr.	N Fl.
£	1	1.520	2.430	189.2	8.182	2.207	2.73
$	0.658	1	1.599	124.5	5.383	1.452	1.79
DM	0.412	0.626	1	77.86	3.367	0.908	1.12
YEN	5.285	8.034	12.84	1000.	43.25	11.66	14.4
F Fr.	1.222	1.858	2.970	231.2	10.	2.697	3.33
S Fr.	0.453	0.689	1.101	85.73	3.707	1	1.23
N Fl.	0.366	0.556	0.889	69.25	2.995	0.808	1
Lira	0.453	0.734	1.173	91.31	3.949	1.065	1.31
C$	0.516	0.783	1.255	97.68	4.224	1.139	1.41
B Fr.	2.000	3.040	4.860	378.4	16.36	4.414	5.46
Pta	0.576	0.876	1.401	109.0	4.716	1.272	1.57
Ecu	0.812	1.234	1.972	153.6	6.641	1.791	2.21

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

CHICAGO

LONDON (LIFFE)

PARIS

BASE LENDING RATES

MONEY MARKETS

Easing next year

EUROPEAN futures markets yesterday appeared to be taking the view that the next round of central bank policy easing will come next year and not before the end of 1992, *writes James Blitz*.

The longer-dated futures contracts in sterling, D-Marks and French francs all showed good rises yesterday, implying that the cost of 3-month money will drop next year.

UK clearing bank base lending rate 7 per cent from November 13, 1992

By contrast, the shorter-dated futures in Europe fell back yesterday as markets continue to take the view that the Bundesbank is keeping monetary policy on a tight rein for the time being.

Sterling futures contracts now describe a falling interest rate yield curve in the spring of 1993, but not before. The March 1993 contract rose 6 basis points to a close of 93.77 yesterday, while the June contract rose 10 basis points yesterday to 93.94.

The latter price means that 3-month money next summer would be at 6.06 per cent, implying at least another 100 basis points off base rate within the next 6 months.

Beyond that, the interest rate curve rises again. The March 1995 contract was yesterday trading at 92.16, suggesting that 3-month money will be near 8 per cent again in 2½ year's time.

Rates in the cash market describe roughly the same trend. Three-month money, which is seen as a key guide to the market's view on rates, closed at 7⅛ per cent from a previous close of 7¾ per cent.

That price is well above the base rate figure. But the easier close on the day reflects the ease with which the Bank of England's shortage of £750m was removed. In the early round, £520m was removed, and there was late assistance of £105m.

One commercial bank dealer suggested that the Bank of England might go out of its way to help remove shortages in the next few days because of the government's need to convince banks and building societies to pass on the full effects of last Friday's base rate cut.

"With the short-dated periods much higher than base rate, the banks will have a good reason for complaining of high funding costs," he said.

Like sterling, the longer-dated Euromark contracts rose sharply yesterday. June 1993 Euromarks rose 5 basis points to a close of 92.82, and December 1993 was up 6 basis points at a close of 93.43.

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

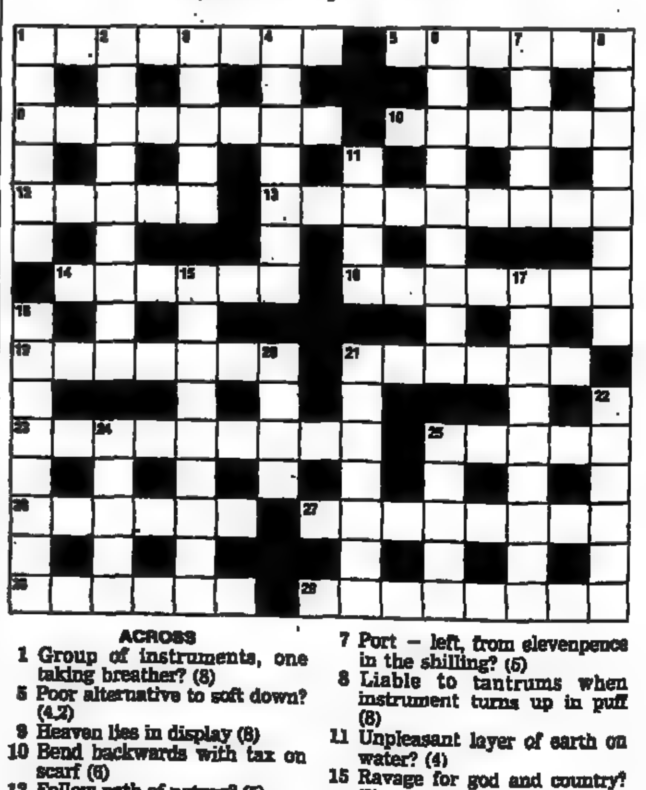
MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

No.8,006 Set by CINEPHILE



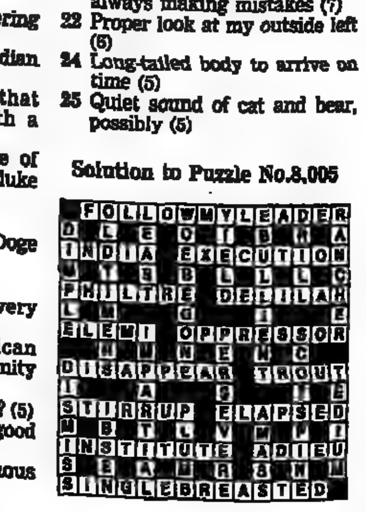
ACROSS

1 Group of instruments, one taking breather? (8)
5 Poor alternative to soft down? (4,2)
9 Heaven lies in display (8)
10 Bend backwards with tax on scarf (6)
12 Follow path of nature? (5)
13 Descended from Lancaster? (9)
14 Dishonest instrument? (5)
16 Half of half gun – add water (7)
19 Hatchet for sticker (7)
21 Hesitate to put guineas in trunk (6)
23 A new library book entering office? (9)
25 Plan for the French Canadian tree (5)
26 Funny sort of duck that doesn't start to lay with a shell (6)
27 Alfred upset by a couple of Marines – could be a fluke (8)
28 Way in, of course (6)
29 Hard work for loveless Doge in theatrical lane (8)

DOWN

1 American elk – 'ah very shad' (5)
2 Vikings encircle African country to effect uniformity (9)
3 Sort of cycle for the organ? (5)
4 Section of journey (not good – French) (7)
6 Copper's job is conspicuous (9)
7 Port – left, from elevenpence in the shilling? (6)
8 Liable to tantrums when instrument turns up in puff (8)
11 Unpleasant layer of earth on water? (4)
15 Ravage for god and country? (9)
17 Quality of sound surrounding most of trumpeter or blower (9)
18 Disorderly struggle to cook eggs? (8)
20 Sappers in check (4)
21 Trumpeter holding pole: he's always making mistakes (7)
22 Proper look at my outside left (6)
24 Long-tailed body to arrive on time (5)
25 Quiet sound of cat and bear, possibly (5)

Solution to Puzzle No.8,005



WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

NETHERLANDS (continued)

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWEDEN (continued)

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

MALAYSIA

[illegible]

SINGAPORE

[illegible]

Price data supplied by Telekurs.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. [illegible]

CANADA

TORONTO

3 pm November 17

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
4200	Canfor	$25½	25½	25½	–⅛
300	CnPcForest	$20¾	20⅞	20¾	–½
11100	Cara Op	475	470	470	
232300	Cascades	$6½	6½	6½	
15300	Celanese	$42	41½	41½	–½
20200	Cntrl Cap	3	d2	2	
33800	Cnpn Gdr	230	210	210	
600	Cntrl Fd A	475	475	475	–5
29700	Cominco	$17½	d17⅛	17¼	–⅛
4400	Jannock	$13½	13⅛	13¼	–⅛
100	KerrAddsn x	$16⅛	16⅛	16⅛	
4400	Labatt	$20¾	20½	20⅝	–⅛
885000	Lac Minls	$7⅝	7¼	7¼	–⅜
2800	Lalargo x	$18½	18¼	18¼	
22500	Laidlaw A	$10¼	10	10⅛	
158000	Laidlaw B	$10⅛	10	10	+⅛

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MONTREAL

3 pm November 17

[illegible]

INDICES

NEW YORK

DOW JONES	Nov 16	Nov 13	Nov 12	Nov 11	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3205.74	3233.03	3239.79	3240.33	3413.21 (1/6)	3136.58 (9/10)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	101.98	101.96	102.06	102.15	103.20 (18/9)	98.41 (20/3)	103.20 (18/9/92)	54.99 (1/10/81)
Transport	1350.90	1378.70	1384.34	1381.72	1467.68 (20/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	216.09	216.39	216.32	216.57	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Indl Day's High 3241.41 (3252.48) Low 3191.16 (3211.69) (Theoretical)♦
Day's High 3229.52 (3239.79) Low 3203.85 (3224.12) (Actual)♦

STANDARD AND POOR'S

	Nov 16	Nov 13	Nov 12	Nov 11	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	420.68	422.43	422.87	422.20	425.27 (14/9)	394.50 (8/4)	425.27 (14/9/92)	4.40 (1/6/32)
Industrials	493.59	495.91	496.80	496.13	503.30 (14/9)	470.91 (8/4)	503.30 (14/9/92)	3.62 (21/6/32)
Financial	38.11	38.35	38.37	38.19	38.37 (12/11)	32.40 (8/4)	38.37 (12/11/92)	8.64 (1/10/74)
NYSE Composite	231.78	232.64	232.83	232.58	233.73 (14/9)	217.92 (8/4)	233.73 (14/9/92)	4.46 (25/4/42)
Amex Mkt. Value	386.83	389.69	389.23	388.81	418.99 (12/2)	364.85 (9/10)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	634.01	637.16	634.37	634.92	644.92 (12/2)	547.84 (26/6)	644.92 (12/2/92)	54.87 (31/10/72)

	Nov 13	Nov 6	Oct 30	year ago (approx.)
Dow Industrial Div. Yield	3.17	3.20	3.21	3.10

	Nov 11	Nov 4	Oct 28	year ago (approx.)
S & P Industrial div. yield	2.65	2.60	2.68	2.67
S & P Indl. P/E ratio	27.72	27.31	27.52	22.04

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Gen Motors	2,463,500	31⅛	....
AMP	2,326,300	57	– 7¾
AT&T	2,259,100	46½	+ ⅜
Blockbuster	2,071,200	17	+ ⅛
Diagnostek	1,881,000	7⅛	– ⅛
West Elec	1,798,300	12⅛	+ ⅛
GTE Corp	1,785,800	34⅞	+ ⅛
IBM	1,764,700	64⅞	....
Union Tex	1,461,800	17¼	– ⅛
Philip Mor	1,418,400	79⅞	– ⅛

TRADING ACTIVITY

† Volume (Millions)	Nov 16	Nov 13	Nov 12
New York SE	173.500	192.320	224.580
Amex	13.549	13.106	15.472
NASDAQ	189.078	201.466	259.463
NYSE			
Issues Traded	2,400	2,360	2,351
Rises	736	923	905
Falls	1,087	843	864
Unchanged	577	594	582
New Highs	66	74	93
New Lows	41	26	32

CANADA TORONTO

	Nov 16	Nov 13	Nov 12	Nov 11	1992 HIGH	1992 LOW
Metals & Minerals	2553.42	2589.46	2624.54	2661.24	3238.87 (16/1)	2553.42 (16/11)
Composite	3236.40	3269.53	3283.78	3286.40	3666.00 (16/1)	3195.40 (14/10)
MONTREAL Portfolio	1713.24	1732.61	1742.01	1739.63	1937.59 (16/1)	1663.16 (14/10)

Base values of all Indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

AUSTRALIA, AUSTRIA, BELGIUM, DENMARK, FINLAND, FRANCE, GERMANY, HONG KONG, IRELAND, ITALY, JAPAN, MALAYSIA, NETHERLANDS, NORWAY, PHILIPPINES, SINGAPORE, SOUTH AFRICA, SOUTH KOREA, SPAIN, SWEDEN, SWITZERLAND, TAIWAN, THAILAND, WORLD

[illegible]

TOKYO - Most Active Stocks

Tuesday, November 17, 1992

	Stocks Traded	Closing Prices	Change on day
Green Cross	5.3m	1,370	+80
Mitsubishi Kakok	3.3m	1,050	+30
Hitachi	2.4m	708	+3
Okamoto	2.1m	1,000	
Mitsubishi Heavy	2.0m	494	-1
NEC	1.9m	[illegible]	[illegible]
Nomura Sec	1.9m	[illegible]	[illegible]
Mitsui Mi & Smt	[illegible]	[illegible]	[illegible]
Sumitomo Mtl	[illegible]	[illegible]	[illegible]
Meiji Milk	[illegible]	[illegible]	[illegible]

3 pm November 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Quote	Close Prev. Close	Ch'ge
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

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- O -

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NYSE COMPOSITE PRICES

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- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

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Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months. estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3 pm November 17

[illegible]

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Olsten x	0.32	27	454	33	32½	32⅝	-1⅛
Pegasus G	0.10	28	235	13⅝	13½	13⅝	+⅛
Perini	0.80	16	45	18⅝	18¼	18⅜	+⅛
Pet HI&P	1 14	13	11	15⅞	15¾	15¾	+⅛
Phil LD	0.28	15	439	38	37½	37½	-⅛
Plawey A	1.10	16	22	u38⅝	38¼	38⅝	+⅜
Ply Gem x	0.12	20	522	10½	10¼	10¼	+⅛
PMC	0.68	15	154	11⅞	11¾	11⅞	+⅛
PresidioA	0.10	1	1025	1¾	1½	1⅝	+⅛
Price Com		0	221	0.06	1/16	1/16	
RB&W Cp		1	232	2¾	2⅝	2⅝	+⅛
RiedelEnv		12	28	8	7¾	8	+⅛
SJW Corp	1.96	8	10	31⅞	31⅝	31⅝	-⅛
SbcUnion		43	30	14⅞	14¾	14¾	
Sterl El		15	929	u8½	8⅛	8⅛	

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NASDAQ NATIONAL MARKET

3 pm November 17

[illegible]

AMERICA

General Motors slips as Dow holds ground

Wall Street

AFTER Monday's sell-off, US share prices held their own although blue-chip gains were limited and secondary stocks remained weak, *writes Patrick Harverson in New York.*

By 1 pm the Dow Jones Industrial Average was up 2.17 at 3,208.72. The more broadly based Standard & Poor's 500 was down just 0.01 at 420.67, while the Amex composite eased 1.88 to 384.95. The Nasdaq composite index continued to give up the gains earned in recent weeks, losing another 3.05 to 630.96. Turnover on the NYSE was 107m shares.

There was little economic news of substance yesterday, and attention was fixed on the monthly meeting of the Federal Reserve's Open Market Committee. Recent economic reports have shown that the recovery has gathered pace since the summer, and yesterday analysts did not expect the policy-making FOMC to sanction another cut in interest rates.

General Motors slipped $⅝ to $30⅝ in turnover of 1.2m shares on a newspaper report claiming that the company knew about the vulnerability of its pickup trucks to fires resulting from fuel tank ruptures in 1983, but that it did not take action to rectify the problem until five years later. GM already faces more than 100 lawsuits related to the fuel tank design, and the market fears that the number will rise.

Arkla jumped $⅝ to $9⅝ in heavy trading after the company entered into a pact to sell its exploration unit to Seagull Energy for $402m. Arkla also planned to sell some properties to repay debt, and was considering selling its Louisiana Intrastate Gas subsidiary.

JWP fell $¼ to $3⅝ after the company said it anticipated making a third-quarter loss of $162m following restructuring and other non-recurring charges which total $135m.

ADRs in British Airways dropped $2⅝ to $38 after the airline announced a 23 per cent decline in second-quarter pre-tax profit and a 6.8 per cent drop in passenger yields in the first six months of the year.

On the Nasdaq market, Borland International slumped $2 to $26¾ in turnover of 2.2m shares after the securities house, Lehman Brothers, downgraded the technology stock from "outperform" to "underperform".

Tokos Medical plunged $8⅛ to $16⅛ after the company warned that fourth-quarter profits would come in well below analysts' forecasts.

BUENOS AIRES saw a 7.6 per cent rise in the all-share index to 11,544.11 as investors returned to the stock market after a run on the peso petered out. Turnover jumped to 70m pesos from 52m.

All 20 blue chips scored big gains with 17 rising by 9 per cent. The biggest risers were Garovaglio and Nobleza Piccardo.

Canada

TORONTO recouped earlier losses in thin midday trading but rising interest rates and weak gold shares kept a lid on gains. The TSE-300 index slipped 0.70 to 3,235.6 in volume of 17.7m shares. Franco-Nevada led the gold losers, dropping C$¾ to C$27¼, but bank shares recovered after Monday's losses.

Tokyo perilously close to quicksands

A further fall in the Nikkei could take the banks with it, warns Charles Leadbeater

The Tokyo stock market is in danger of slipping back into the financial quicksands.

The Nikkei average is at its lowest level for three months. It has lost about half of the gains it made in the wake of the August announcement of a Y10,700bn ($86bn) emergency government spending package to revive the economy.

The wave of euphoria that greeted the package drove the Nikkei up from an year's low of 14,309 in August to a high of more than 18,908 in September.

At that time Nikko Securities was not alone in describing the rally as a turning point. It forecast that the Nikkei would probably trade between 20,000 and 23,000 this autumn, with economic growth recovering strongly by the early spring of next year.

Those hopes have proved ill-founded. From late September until early this month, it was still possible to believe that the August package had done the trick as the Nikkei hovered between 17,000 and 18,000. But in the last nine trading days it has lost more than 1,000 points to close yesterday at 15,993.

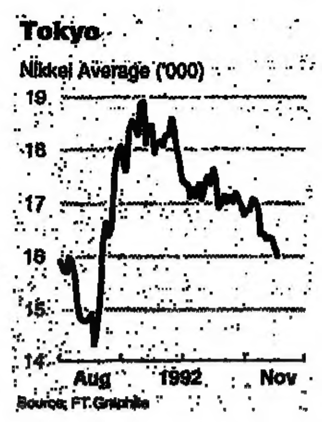
A continued decline would have far-reaching implications for the Japanese economy because of its impact upon Japan's troubled banks. The authorities' ability to prevent further declines in two markets – in equities and in property – will determine the short-term prospects for the banks, and for the economy.

Land prices are still falling. Further falls would erode the collateral for more of the banks' real estate loans. Bad debts for the top 21 banks rose by more than 50 per cent in the six months to September to Y12,000bn. So arresting the decline in property values, partly through increased government purchases of land for public works, will be vital to curtail the growth of the bank's bad debts.

Share prices are central to the strength of the banks' balance sheets because about Y18,000bn of the 21 top banks' capital of about Y40,000 is made up of unrealised gains on stock transactions.

With the Nikkei at between 18,000 and 20,000, the banks' capital base should be strong enough to pass the Bank of International Settlement's (BIS) capital adequacy ratios. That should allow them to increase their lending at more than 5 per cent per annum, fast enough to fuel economic growth next year of about 3 per cent.

However a further fall in the stock market would eat into



the banks' capital at a time when they are planning write-offs for rising bad debts; and the pressures for the market to fall further are considerable.

The outlook for corporate earnings is dismal, with some analysts predicting that profits next year could fall for the fourth year in a row. Investment is still falling and consumption flat, and there is growing scepticism about whether the government's public investment programme will deliver a kick start to businesses outside the sectors which are direct beneficiaries, such as construction and steel.

A more immediate worry is that companies are selling their stockholdings in other companies to raise working capital, because they are finding it difficult to raise it by bank borrowings.

Other sources of demand are unlikely to prove strong enough to sustain the market. Foreign investors, who bought heavily when the market reached its summer lows, are likely to wait to see whether it will go down further.

The government's pledge that the public sector postal savings system would buy more stocks is running into opposition from the ministry of post and telecommunications. It has been bombarded with complaints from savers who are unhappy that their money is being used to prop up the ailing stock market. Mr Peter Tasker, chief equity strategist at Kleinwort Benson, comments: "The influx of public funds can slow the market's decline but it cannot chase the market back up."

However, if the banks are to pass the BIS standards by next March the market will have to stage a sustained recovery. With a huge rabbit pulled out of the hat in August, it is likely that an even bigger stimulus will be required.

A further early cut in interest rates of more than 50 basis points is increasingly likely. But that will not be a panacea. The Nikkei has fallen within two weeks of four of the last five interest rate cuts.

The banks could help by taking more decisive action to deal with their bad debts. But as yet they are taking a gradualist approach.

So the main boost must come from fiscal policy. The supplementary budget to enact the August Y10,700bn package is stalled in the Diet which is consumed by a power struggle sparked by the Tokyo Sagawa Kyubin scandal. The ruling Liberal Democratic Party (LDP) will face mounting pressure to deliver a large fiscal stimulus through the 1993 budget.

The problem is that political lines of command at the top of the LDP are so confused in the wake of the Sagawa Kyubin scandal that swift and decisive political leadership is unlikely.

A full-scale rout taking the market back to 14,000 cannot be ruled out, though it is still unlikely. But the longer the supplementary budget remains stalled in parliament and the LDP leadership is gridlocked, the more likely it is the Nikkei will continue its dismal drift downwards, threatening to take the banks and the economy with it.

EUROPE

Madrid and Milan buck weaker continental trend

MADRID joined Milan as the continent's risers, while northern bourses were generally weaker, *writes Our Markets Staff.*

MADRID extended the rally which took off late last week on lower-than-expected inflation figures and the removal of restrictions on the government holding in Tabacalera, one of Spain's privatisation candidates.

The general index rose 2.96 to 206.77. Companies featuring in the current results season showed up, with Repsol rising Pta160 to Pta2,645. However, Mr Stephen Hughes at Nikko Europe said its figures were no better than expected. Iberdrola I, which did produce a pleasant surprise, put on Pta21 to Pta648 but Banesto lost Pta20 to Pta2,070 against a rising bank sector on loan loss provisions and the restructuring of the company's board.

MILAN rose further on continued demand for privatisation stocks, taking the Comit index through its chart resistance point at 480. The Comit index rose 8.92 to 481.30 in continued heavy turnover of around L400bn after Monday's L394.4bn.

Dealers said that they were waiting to see what the foreigners would do, since they had not participated greatly in the recent rally, fuelled mainly by domestic buying.

Mediobanca rose L90 or 7.9 per cent to L14,890 before slipping back to L14,550 after hours. Sme continued to be suspended as the market waited for details of the government's plans to sell off part of the group.

ZURICH fell through 1,900 on the SMI index, which lost another 23.9 to 1,889.5 in thin trading. Dealers again blamed weekend polls which showed that the Swiss electorate would reject European Economic Area membership at the December 6 referendum.

However, Mr Jonathan Spink at Williams de Broe said that this week's fall coincided, more importantly, with a decline in the Swiss franc against the D-Mark towards a point (90 centimes to the D-Mark) at which the authorities would protect the rate. Swiss interest rates have risen accordingly, and banks showed the strain as CS Holding lost SFr45 to SFr1,915.

PARIS continued to fall in thin trading, and some sell orders from the UK were reported. The CAC 40 index dropped 8.29 to 1,764.44 in modest turnover of FFr1.7bn.

Schneider fell FFr37 or 6.5 per cent to FFr537 after its US subsidiary, Square D, set a $233.5m bond convertible into Schneider shares.

Euro Disney fell another FFr2.25 or 3 per cent to FFr72.15 in a continued reaction to a sell note from Paribas and on fears that tomorrow the theme park will announce heavy losses for the year ended September 30.

Michelin lost another FFr4.10 to FFr182.40 but Peugeot gained FFr16 to FFr514. Rumours that a US house was about to publish a negative report on Elf and Total took those shares down by FFr10.40 and FFr4.30 to FFr351.30 and FFr231.70 respectively.

FRANKFURT traders tried to push equities up ahead of today's holiday, but buying orders did not materialise and the DAX index reversed a 14-point gain to close 1.90 lower at 1,545.05. Turnover rose from DM4.6bn to DM5.1bn.

The US dollar's rise above DM1.60 lifted some cyclicals, most carmakers, Veba and Siemens. Volkswagen was also boosted by a short-term trading buy recommendation from a domestic broker, closing DM4.50 higher at DM286.50.

Lufthansa's news that its nine-month loss was only slightly worse than in 1991 left the shares DM4 lower at DM100.

STOCKHOLM ran into heavy profit-taking after two days of advances, as the market took the view that Sweden would not abandon its fixed exchange rate policy. The Affärsvärlden general index fell 2.2 to 723.6 in turnover of SKr708m after SKr430m.

AMSTERDAM was depressed by London and news that the government was planning to lower its estimate for 1993 economic growth from the current 1 per cent. The CBS Tendency index fell 0.7 to 104.5. DSM continued its downward trend as it lost another Fl 2.60 to Fl 70.50.

FT-SE Actuaries Share Indices

November 17 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1058.62	1058.14	1056.68	1059.32	1057.02	1056.58	1055.40	1056.32
FT-SE Eurotrack 200	1111.13	1111.75	1112.42	1111.51	1111.98	1110.58	1109.21	1109.66

	Nov 16	Nov 13	Nov 12	Nov 11	Nov 10
FT-SE Eurotrack 100	1058.27	1059.26	1059.91	1045.16†	1054.50
FT-SE Eurotrack 200	1110.19	1114.93	1120.89	1108.96†	1117.70

Base value 1000 (26/10/90) Highday: 100 - 1059.32; 200 - 1113.20 Lowday: 100 - 1054.21 200 - 1109.03 †Prelim

SOUTH AFRICA

AN improved bullion price and a weaker financial rand took mining shares off midday lows. The gold index closed 13 down at 761, but off an earlier 754 low. The overall index fell 7 to 3,034 and industrials rose 9 to 4,078.

ASIA PACIFIC

Nikkei below 16,000 on earnings pessimism

Tokyo

THE Nikkei average fell below 16,000 for the first time since August 30 on pessimism about corporate earnings and the continued delay in Diet debates, *writes Emiko Terazono in Tokyo.*

The index fell 169.51 to 15,993.45 after a morning low of 15,941.93 on arbitrage selling and an afternoon high of 16,100.30. Volume recovered to 200m shares from Monday's 124m, the second-lowest level since August 3. Declines led advances by 870 to 235 with 165 unchanged, the Topix index of all first section stocks lost 11.19 to 1,221.33 and, in London, the ISE/Nikkei 50 index dropped 3.52 to 979.92.

In the morning, Mr Tsutomu Hata, the finance minister, revealed rule changes for initial public share offerings in order to attract individual investors. Investors ignored the announcement. Comments by Mr Kozo Watanabe, the minister of international trade and industry, that the Nikkei average should be at 18,000, considering the competitiveness of Japanese companies, also failed to boost sentiment.

Investment trusts, which have been the leading buyers recently, stuck to the sidelines. Public pension funds were also absent. Foreigners have also been leading sellers of the market. One fund manager at a leading life assurer said that the index was expected to fall to 15,000.

Bank shares met widespread selling on worries over bad loans. Rumours that hedge funds were targeting bank shares for short-selling also sent jitters through the market. Industrial Bank of Japan fell Y80 to Y2,230 and Fuji Bank lost Y70 to Y1,690.

Electronics lost more ground on earnings worries. NEC fell Y2 to Y608 and Matsushita Electronic Industrial retreated Y20 to Y1,040. Hitachi, however, rose Y3 to Y703 on bargain-hunting.

The Tokyo Stock Exchange suspended trading in Gajoen Kanko, the hotel operator involved with Itoman, the scandal-tainted textile trader, after Gajoen's accountants refused to certify its interim earnings report. TSE officials said the shares could be delisted if Gajoen failed to rewrite its earnings report and obtain a final certificate.

In Osaka, the OSE average lost 92.63 to 17,467.72 in volume of 25.6m shares. Ono Pharmaceutical gained Y80 to Y5,290, but Aoyama Trading, the men's clothing company, fell Y70 to Y7,380 on profit-taking.

Roundup

PACIFIC Rim markets were more concerned with domestic matters than Tokyo's drop. In Bombay and Calcutta, Indian brokers boycotted trading in protest against registration fees imposed by the Securities and Exchange Board of India.

HONG KONG saw waves of panic selling after a veiled threat about the future of the colony issued in London by Chinese vice premier Zhu Rongji. The Hang Seng index fell to 6,046.74 before bargain-hunters came in, and closed down 266.31 or 3.3 per cent at 6,088.52.

Turnover was moderate at HK$3.76bn. HSBC Holdings fell HK$2.50 to HK$62.50.

AUSTRALIA broke a seven-day decline on bargain-hunting and the All Ordinaries index finished 7.8 up at 1,365.1 in turnover of A$210.2m.

ANZ closed unchanged at A$2.53 after reporting a A$579m loss which the bank blamed partly on write-offs in its property portfolio.

NEW ZEALAND was lifted by a better than expected first half result from Telecom Corp and the NZSE-40 capital index ended up 9.46 at 1,418.97 in turnover of NZ$24.9m.

SINGAPORE ended higher on a technical rebound following Monday's losses on news that both the country's deputy prime ministers had cancer. The Straits Times Industrial index rose 19.38 to 1,433.65 in volume of 111.2m shares against 130.4m.

SEOUL ended firmer in moderate trading on a technical rebound led by Kepco shares. The composite index closed 14.78 higher at 631.42 in turnover of Won440.96bn compared with Won370.88bn.

Kepco shares rose Won800, the daily upper limit, to Won20,500, on expectations that the company will permit direct but limited foreign investment at its shareholders' meeting on Friday.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 16 1992								FRIDAY NOVEMBER 13 1992					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1992 High	1992 Low	Year ago (approx)
Australia (68)	108.18	−1.8	105.56	85.34	89.43	104.41	−1.2	4.68	110.20	105.44	86.31	89.75	105.69	153.68	108.18	155.91
Austria (19)	139.51	−1.0	136.12	110.06	115.33	115.22	+0.3	2.45	140.94	134.85	110.38	114.78	114.87	186.70	139.51	171.97
Belgium (42)	135.53	−1.2	132.24	106.91	112.04	109.30	−0.2	5.64	137.23	131.30	107.47	111.76	109.48	152.27	134.41	136.16
Canada (114)	112.52	−1.6	109.79	88.76	93.01	103.48	−1.1	3.37	114.32	109.38	89.53	93.10	104.59	142.12	112.52	142.28
Denmark (34)	199.65	−2.0	194.80	157.50	165.03	165.36	−0.8	1.65	203.67	194.88	159.52	165.87	166.76	273.94	184.18	263.40
Finland (15)	67.25	−3.6	65.61	53.05	55.59	71.20	−1.9	1.98	69.74	66.73	54.63	56.80	72.60	89.80	52.84	84.21
France (99)	145.87	−2.5	142.33	115.07	120.57	122.64	−1.2	3.67	149.66	143.20	117.21	121.88	124.07	168.75	144.70	145.12
Germany (64)	106.40	−1.6	103.82	83.95	87.96	87.96	−0.1	2.62	108.12	103.45	84.69	88.05	88.05	129.69	102.51	113.75
Hong Kong (53)	255.52	−1.4	249.32	201.57	211.23	253.64	−1.4	3.55	259.05	247.87	202.89	210.99	257.14	282.28	176.36	173.17
Ireland (16)	124.53	−1.9	121.50	98.24	102.94	105.29	−0.8	5.21	126.89	121.41	99.38	103.34	106.14	173.71	123.98	161.89
Italy (77)	61.98	+1.0	60.48	48.90	51.24	62.77	+2.3	3.31	61.39	58.74	48.07	49.99	61.37	80.86	47.47	71.39
Japan (472)	98.95	−1.6	96.55	78.06	81.81	78.06	−0.9	1.06	100.54	96.20	78.74	81.89	78.74	140.95	87.27	134.87
Malaysia (69)	278.13	−1.3	271.37	219.40	229.90	270.20	−1.2	2.42	281.89	269.72	220.77	229.57	273.48	282.42	212.49	202.65
Mexico (18)	1495.40	−1.3	1459.08	1179.69	1236.16	5093.00	−1.2	1.18	1514.54	1449.14	1186.18	1233.47	5152.39	1789.77	1185.84	1385.34
Netherland (25)	151.13	−1.2	147.46	119.22	124.93	123.33	+0.2	4.60	152.96	146.38	119.81	124.59	123.06	169.70	147.88	147.40
New Zealand (13)	38.76	+0.3	37.82	30.58	32.04	39.54	+1.1	5.74	38.65	36.98	30.28	31.48	39.10	48.52	37.39	47.77
Norway (22)	130.39	−0.9	127.22	102.86	107.78	114.41	+0.5	2.12	131.55	125.87	103.03	107.14	113.63	192.95	130.39	178.13
Singapore (38)	195.49	−2.6	190.74	154.22	161.59	147.38	−2.4	2.24	200.69	192.03	157.18	163.45	150.98	229.63	179.65	203.02
South Africa (60)	143.03	+0.5	139.56	112.83	118.23	146.26	+0.0	3.50	142.29	136.15	111.44	115.88	146.19	263.60	139.37	267.10
Spain (48)	110.01	−1.0	107.34	86.79	90.94	94.88	+0.6	6.33	111.07	106.27	86.99	90.45	94.36	161.72	107.10	148.39
Sweden (31)	156.96	−0.3	153.15	123.83	129.76	139.07	+1.3	2.82	157.37	150.57	123.25	128.17	137.33	200.28	149.69	173.38
Switzerland (60)	105.61	−2.6	103.05	83.32	87.32	94.12	−0.9	2.27	108.44	103.76	84.94	88.33	94.95	122.37	95.99	98.20
United Kingdom (228)	161.86	−2.6	157.93	127.68	133.79	157.93	−0.7	4.66	166.16	158.98	130.12	135.31	158.98	200.07	161.86	179.49
USA (522)	172.07	−0.4	167.89	135.75	142.25	172.07	−0.4	2.96	172.71	165.26	135.27	140.67	172.71	173.39	160.92	156.59
Europe (780)	132.39	−2.0	129.17	104.44	109.44	119.04	−0.4	3.95	135.08	129.25	105.79	110.02	119.47	156.88	131.85	142.74
Nordic (102)	145.89	−0.9	142.35	115.09	120.60	121.86	+0.5	2.39	147.22	140.86	115.30	119.90	121.26	188.52	141.24	179.75
Pacific Basin (713)	104.32	−1.6	101.79	82.30	86.24	83.93	−0.9	1.44	105.99	101.41	83.01	86.32	84.71	141.97	93.70	136.20
Euro – Pacific (1493)	115.68	−1.8	112.87	91.25	95.62	97.97	−0.7	2.61	117.76	112.66	92.22	95.90	96.62	146.21	113.80	139.14
North America (636)	168.38	−0.4	164.29	132.84	139.21	167.42	−0.4	2.98	169.09	161.79	132.44	137.73	168.09	170.49	158.70	155.62
Europe Ex. UK (552)	114.25	−1.8	111.48	90.15	94.47	97.71	−0.1	3.46	116.08	111.07	90.93	94.56	97.84	132.98	112.24	120.76
Pacific Ex. Japan (241)	157.07	−1.5	153.25	123.93	129.85	144.44	−1.3	3.67	159.53	152.64	124.96	129.94	146.33	175.31	149.00	149.34
World Ex. US (1685)	116.71	−1.7	113.88	92.08	96.48	99.90	−0.7	2.63	118.76	113.63	93.02	96.73	100.57	146.91	116.18	141.39
World Ex. UK (1979)	131.86	−1.0	128.66	104.03	109.01	118.53	−0.5	2.55	133.17	127.42	104.30	108.46	119.15	150.58	127.21	142.22
World Ex. So. Af. (2147)	134.52	−1.2	131.25	106.13	111.21	121.75	−0.5	2.76	136.10	130.22	106.60	110.85	122.42	153.05	130.04	144.64
World Ex. Japan (1735)	154.45	−1.0	150.70	121.86	127.70	147.70	−0.4	3.33	156.02	149.26	122.21	127.09	148.35	165.40	151.93	152.46
The World Index (2207)	134.47	−1.1	131.20	106.08	111.16	122.02	−0.5	2.77	136.03	130.16	106.54	110.79	122.68	153.70	130.66	145.46

Latest prices were unavailable for this edition.